

# FHA INVESTIGATION

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## HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

EIGHTY-THIRD CONGRESS

SECOND SESSION

PURSUANT TO

**S. Res. 229**

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PART 4

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SEPTEMBER 23 AND 24, DETROIT; SEPTEMBER 27, 30, AND  
OCTOBER 1, NEW YORK; OCTOBER 5, 6, 7, 8, AND  
NOVEMBER 9, 1954, WASHINGTON

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FHA INVESTIGATION UNDER SENATE RESOLUTION 229

WILLIAM SIMON, *Chief Counsel*

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## FHA INVESTIGATION

THURSDAY, SEPTEMBER 23, 1954

UNITED STATES SENATE,  
BANKING AND CURRENCY COMMITTEE,  
*Detroit, Mich.*

The committee met at 10 a. m., Senator Homer E. Capehart, chairman, presiding.

Present: Senator Capehart.

Also present: William Simon, general counsel, and Clarence E. Dinkins, assistant counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

I would first like to call the roll of witnesses. If you are present, please answer "Present," and then we will take a record of those that are not present.

Is Mr. Joyce A. Schnackenberg present?

Mr. SCHNACKENBERG. Present.

The CHAIRMAN. Fred W. Knecht?

(No response.)

The CHAIRMAN. Mr. Fred W. Knecht; is he present?

(No response.)

The CHAIRMAN. Jerome Kaufman?

Mr. KAUFMAN. Present.

The CHAIRMAN. Saul Silberman?

(No response.)

The CHAIRMAN. Ward McCreedy?

Mr. MCCREEDY. Present.

The CHAIRMAN. Harry Coulton?

(No response.)

The CHAIRMAN. Harry Coulton?

(No response.)

The CHAIRMAN. Albert R. Barbeau?

(No response.)

The CHAIRMAN. William H. Carrico?

(No response.)

The CHAIRMAN. Helen Parker Bennett?

(No response.)

The CHAIRMAN. Mildred Redman?

(No response.)

The CHAIRMAN. John D. Redman?

(No response.)

The CHAIRMAN. Cedar Point Thompson?

(No response.)

The CHAIRMAN. Lawyer Brown?

(No response.)

The CHAIRMAN. Mrs. Ruth Stokes?

(No response.)

The CHAIRMAN. Jack Chisik?

(No response.)

The CHAIRMAN. Mary Halbeisan?

(No response.)

The CHAIRMAN. Daniel Pintamo?

(No response.)

The CHAIRMAN. Mrs. Mary S. Galler?

(No response.)

The CHAIRMAN. Philip Rosenbaum?

(No response.)

The CHAIRMAN. Chester C. Murszewski?

Mr. MURSZEWski. Present.

The CHAIRMAN. Irwin Gerald Kepes?

(No response.)

The CHAIRMAN. William Ray Shepherd?

Mr. SHEPHERD. Here.

The CHAIRMAN. Wallace F. Helies?

(No response.)

The CHAIRMAN. Doris Helies?

Mrs. HELIES. Present.

The CHAIRMAN. Where is Wallace F. Helies? Is he present?

Mrs. HELIES. No.

The CHAIRMAN. Do you know where he is?

Mrs. HELIES. Yes, I do.

The CHAIRMAN. Where?

Mrs. HELIES. Over in Canada right now. They expect him any time.

The CHAIRMAN. Dominick Keno Gertinisan?

(No response.)

The CHAIRMAN. Gerald Swabb?

(No response.)

The CHAIRMAN. Gerald Swabb?

(No response.)

The CHAIRMAN. Israel Crouter?

Mr. CROUTER. Present.

The CHAIRMAN. Leonard Pickan?

Mr. PICKAN. Present.

The CHAIRMAN. Mrs. Jim Mace?

Mrs. MACE. Present.

The CHAIRMAN. We will go over that list again of those that are absent:

Mr. Knecht, is he present?

(No response.)

The CHAIRMAN. Saul Silberman?

(No response.)

The CHAIRMAN. Harry Coulton?

(No response.)

The CHAIRMAN. Albert Barbeau?

(No response.)

The CHAIRMAN. Walter H. Carico?

(No response.)

The CHAIRMAN. Helen Parker Bennett?

(No response.)

The CHAIRMAN. Mildred Redman?

(No response.)

The CHAIRMAN. John D. Redman?

(No response.)

The CHAIRMAN. Cedar Point Thompson?

(No response.)

The CHAIRMAN. Lawyer Brown?

(No response.)

The CHAIRMAN. Mrs. Ruth Stokes?

(No response.)

The CHAIRMAN. Jack Chisik?

(No response.)

The CHAIRMAN. Marie Halbeisan?

(No response.)

The CHAIRMAN. Daniel Pintamo?

(No response.)

The CHAIRMAN. Mrs. Mary S. Galler, Philip Rosenbaum, Gerald Kepes?

Mr. KEPES. Here, Mr. Chairman.

The CHAIRMAN. Wallace F. Helies. You say he is in Canada?

(No response.)

The CHAIRMAN. Dominick Keno Gertinisan?

(No response.)

The CHAIRMAN. Gerald Swaab?

Mr. SWAAB. Here.

The CHAIRMAN. I just want to say that these people are all under summons, and unless they appear they will be in contempt of the United States Senate. If you know any of them, you can do them a favor by notifying them to appear.

This is the Senate Banking and Currency Committee, acting under a resolution introduced by myself and the late Senator Maybank of South Carolina, in which we are investigating the Federal Housing Administration in all its aspects, which resolution was unanimously passed by the committee and by the United States Senate.

We will hold hearings here today and tomorrow. We may be able to finish up by tomorrow noon, but we certainly will finish by 4 o'clock, and if there are any witnesses or any business that we ought to handle that we are unable to handle here in a short period of time, we will call them to Washington at a later date for hearing, in Washington.

Anyone feeling that they can avoid being heard by failure to show up here will be subpoenaed and brought to Washington, D. C., for hearings.

Our first witness today will be Mr. Ward McCreedy, who is assistant commissioner of the Michigan Corporation and Securities Commission for the State of Michigan.

Will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF WARD McCREEDY, DEPUTY COMMISSIONER,  
MICHIGAN CORPORATION AND SECURITIES COMMISSION**

Mr. McCREEDY. I do, sir.

The CHAIRMAN. Thank you, sir. Will you please be seated.

It is the rule of this committee that any witness may have an attorney to accompany him or if any witness objects to having his photograph taken while he is testifying, or television or motion pictures while he is in the witness chair, we will abide by his wishes in that respect.

The CHAIRMAN. Mr. McCreedy, will you give your full name and address to the reporter for the record, and also tell us your business.

Mr. McCREEDY. Mr. Chairman, my name is Ward McCreedy. I live at 1533 Lawrence, in the city of Detroit. I am the deputy commissioner of the Michigan Corporation and Securities Commission in charge of the builders division for the State of Michigan.

Mr. SIMON. Mr. McCreedy, does your office license contractors who do home repair work?

Mr. McCREEDY. Yes, sir.

The CHAIRMAN. That is the State of Michigan?

Mr. McCREEDY. That is for the State of Michigan.

Mr. SIMON. In that connection, are you acquainted with activities of contractors doing home improvement, home repair work, under title I of the National Housing Act?

Mr. McCREEDY. Yes, sir.

Mr. SIMON. Would you tell the committee briefly the experience that you have had with disreputable contractors whose home repair work has been financed under title I of the National Housing Act?

Mr. McCREEDY. If it is agreeable with the committee, the commission has prepared a brief statement on this, summarizing this entire problem, and we would be very glad to—

The CHAIRMAN. Would you prefer to read that statement?

Mr. McCREEDY. I would like to, sir.

The CHAIRMAN. And then be questioned about it later?

Mr. McCREEDY. Yes, sir.

The CHAIRMAN. Do you have extra copies of it?

Mr. McCREEDY. Yes, sir.

The CHAIRMAN. Suppose you proceed to read the statement. We might want to ask questions when you go along. If not, we will wait until you finish your statement.

You may proceed.

Mr. McCREEDY. The Michigan Corporations and Securities Commission is a State agency, which has as one of its functions the licensing of building and maintenance and alteration contractors. This power is derived from Act 208, Public Acts, 1953, which requires that any one contracting with homeowners for work on residential structures be licensed by the State. The intent and purpose of this act is to protect the homeowner.

A similar act has been in effect since 1945. Over a period of years, this commission has been in direct contact with the homeowners and contractors, who have been financing home repairs through the Federal Housing Administration. As a result, it has accumulated a number of cases depicting the behavior of individuals in this business,

which may be of benefit in the search for corrective amendments to the present Federal Housing Administration Act.

At the outset, we wish it clearly understood that we feel that FHA was and is a very necessary and beneficial piece of legislation. Its broad use in the restoration of housing by persons who could not otherwise afford it testifies to the soundness of the idea. The corruption of the good in the program has been possible because of weak spots in it, which allow for fraudulent practices. These should be corrected and the overall benefits should be continued. We wish it emphasized also that none of the difficulties experienced in this field have been caused by or contributed to by lax or improper administration by FHA employees. To our knowledge—

Mr. SIMON. To what extent, Mr. McCreedy, have you made an investigation that leads you to that conclusion?

Mr. MCCREEDY. Well, we come to that conclusion after examining a number of complaints by the homeowners in which we have known how the FHA has behaved under those conditions, and our knowledge of the FHA Act as to how it is presently construed.

Mr. SIMON. Would you consider that the Federal Housing Administration is wholly blameless for the thousands of suede-shoe salesmen operating in the country?

Mr. MCCREEDY. I am not prepared to talk about the whole national organization. This statement refers pretty much to the local administration—the local office of the FHA Act. I don't believe that the individuals in the act are wholly blameless; no, sir.

Mr. SIMON. By the act, you mean the Administration?

Mr. MCCREEDY. Sir?

Mr. SIMON. You mean the agency when you say the act?

Mr. MCCREEDY. Yes, sir.

To our knowledge, this Administration has always been conscientious and vigorous. It is possible that some of our experiences in this field will be of assistance to you in plugging the loopholes.

An analysis of our files discloses that the majority of homeowner complaints received deal with (1) sales practices and (2) improper workmanship. The most widely used scheme is referred to as the "model home" approach. This is a practice in which the contractor convinces the homeowner that the remodeling will not cost the homeowner any money and that his house is going to be used as a model for future sales in that neighborhood. An intricate part of this scheme, which has developed in its own right as a serious abuse of the Federal Housing Administration facilities, is the procurement of the completion slip from the homeowner through deceit before the work is completed. A third is the use of bonuses to obtain the deal. These sales techniques have resulted in many homeowners receiving bank payment books without getting the work they contracted for. The number of contractors and salesmen in the State using such devices to enrich themselves is small in proportion to the total number of legitimate contractors. However, their activity is voluminous and the results affecting the families run into many thousands of dollars in fraudulently induced contracts each year. The State of Michigan has consistently revoked licenses in which the evidence substantiated that these practices exist. This action, however, has not eliminated the fraudulent practices.

The above practices can exist for two general reasons. First, because the contractor is the go-between, between the homeowner and the lending institution. He holds a unique position in business life, since he acts as a contractor and credit interviewer for lending institutions. The homeowner need never see the cash, because it is paid directly by the bank to the contractor. The contractor is furnished with credit application forms and completion slips. It does not take some contractors long to discover that he can falsify credit application statements of the homeowner, or that the completion slip is a ticket to immediate payment for him. As this knowledge increases among the contractors there is proportionate increases in the problems of the homeowner.

The commission has records in its files disclosing that a lending institution has extended Federal Housing Administration facilities where the face of the contract itself showed that it had been procured by a person whose license had been revoked for fraudulent Federal Housing Administration sales practices.

The CHAIRMAN. I want to come back to that a little later, so keep that in mind, will you?

Mr. McCREEDY. Yes, sir.

It also has a record disclosing that an FHA loan was given to a dealer who has been on the Federal Housing Administration precautionary list since 1945. In this case, the contract was obtained by a person whose license was revoked in 1952 for fraudulent Federal Housing Administration sales practices. This contract was obtained in April 1953. The Michigan Corporation and Securities Commission has denied the license of the dealer involved because of his sales practices and the fact that he is on the Federal Housing Administration precautionary list.

The bank was not unaware of these salesmen's records, but had no legal or economic reason to refuse the loans. It is even possible that the Government in some of these cases is guaranteeing unenforceable obligations because the contract would be held illegal at the start.

Therefore, the commission proposes that aside from the strong criminal penalties placed against the offending contractors, there be stronger responsibilities placed on lending institutions which would make it unprofitable for them to deal with fraudulent contractors and salesmen.

Aside from the moral responsibility of the institutions to ascertain the true nature of the loan, there appears to be no legal or business necessity. In the first place, these institutions are protected by the holder in due-course doctrine. This makes it impossible for a homeowner to claim that he was fouled and enables the lending institutions to proceed to collection. If the homeowner defaults on his loan the lending institution turns it over to the Federal Government for collection and the lending institution is indemnified against serious loss.

There is no reason for lending institutions to take logical protective measures if they stand to lose nothing. It would appear that these institutions become mainly interested in volume. This system of the Government guaranteeing loans where the lending institution, the salesmen, the contractor—in fact, everyone but the homeowner—is unconditionally guaranteed protection, has its obvious weaknesses.

It seems logical and feasible that the lending institutions should be required to determine whether or not, in fact, the actual work they are lending money for has been done. This was originally contemplated by the Federal Housing Administration when it developed the so-called completion slip. With the current practices, however, and the continued reliance of the credit institutions on this unverified completion slip, it would appear that more stringent methods of making this determination are in order. Increased vigilance is likewise needed to curb the improper inducing of contracts whether or not the work is done.

If legislation were passed placing a greater responsibility of clearance and determination of credit at the source where credit is extended, the amount of homeowners suffering from fraudulent sales techniques and improper workmanship would be greatly and severely reduced. Such action by the lending and credit institutions would also give greater weight to a licensing law and enable the full intent of some of the present legislation to be fully realized.

It is possible that some of the following recommendations could be considered in drafting of new legislation:

1. Precautionary list: Make the precautionary list of the Federal Housing Administration an instrument to stop contractors from receiving benefits of the Federal Housing Administration. In the past it was used as a warning to lending institutions that an individual is not honest. It does not, however, prohibit the lending institution from extending credit to those individuals on the precautionary list. It becomes discretionary with the lending institution. If the Government is guaranteeing loans, it should not be left up to anybody except the Federal Housing Administration as to whom it wishes to deal with.

2. In States having licensing laws for contractors, make it mandatory that anyone obtaining Federal Housing Administration benefits be properly licensed for the work which is undertaken.

3. Place greater responsibility for determining the authenticity of credit applications and completion slips on lending institutions.

4. Remove from the contractor the right to furnish credit application blanks and completion slips to the homeowner. This appears to be a mechanical operation and it is possible to place the determination directly in the hands of the lending institution.

The CHAIRMAN. I think your suggestions are excellent. However, I want to say this: That you don't make a single suggestion that the FHA didn't have the authority and right to do in the past if they wanted to do so. The law permitted them to do it. They had the right to do it. They could have done it. Today they are doing many of those things, but not quite all of them.

You lay considerable stress here upon the banking institutions. What is your record here with regard to banking institutions?

Mr. McCREEDY. By and large, it is good. There are some instances in which we feel it could be greatly improved.

The CHAIRMAN. Have you any concrete examples of any lending institutions here that lend money or have lent money, or have financed these loans, when they knew that the dealers were on the blacklist, precautionary list?

Mr. McCREEDY. Well, you say when they knew. If they should have known I could answer the question. I don't know whether they knew or not. They had every reason to know.

Mr. SIMON. Is what you are saying because the Federal Government guaranteed 100 percent of the loan the bank would close their eyes and not exercise the banking judgment that they would have used if it had been their own money they were lending?

Mr. McCREEDY. I believe there is a lot to that, sir.

The CHAIRMAN. Do you have the names of any lending institutions here that we ought to check into?

Mr. McCREEDY. Yes, sir. I don't know if you ought to check into them.

The CHAIRMAN. Do you have any concrete examples?

Mr. McCREEDY. I have cases, as I said in my statement, where the banks are giving business to people whose licenses have been revoked by the State or the Federal Housing Administration Act.

The CHAIRMAN. Did they know about it?

Mr. McCREEDY. Yes, sir.

The CHAIRMAN. Did they continue to finance their loans?

Mr. McCREEDY. They did, sir.

The CHAIRMAN. Can you give us the names of those institutions?

Mr. McCREEDY. Industrial National Bank.

Mr. SIMON. What is the name of the contractor whose paper they took after his license had been canceled?

Mr. McCREEDY. Jack Chisik.

Mr. SIMON. What was the business of Jack Chisik?

Mr. McCREEDY. When they took his business?

Mr. SIMON. Yes.

Mr. McCREEDY. He was working apparently as a salesman for his brother who was licensed.

Mr. SIMON. What was the name of his brother's company?

Mr. McCREEDY. They didn't have a company. He had a license in his own name.

The CHAIRMAN. Do you have any information on the Keno Homes Improvement Co. run by Dominick K. Gertinisan?

Mr. McCREEDY. The Keno Home Improvement Co. has been denied a license by the State of Michigan, and has applied for a formal hearing on its license applications.

The CHAIRMAN. Were they financed by a lending institution here after they had been put on the blacklist?

Mr. McCREEDY. I do not know, sir.

The CHAIRMAN. You do not know about that concern?

Mr. McCREEDY. No.

Mr. SIMON. How long have you been with the Michigan Securities Commission?

Mr. McCREEDY. About 3 years.

Mr. SIMON. Do you know how long these practices that you relate have been going on?

Mr. McCREEDY. They have apparently been going on before I came because the present commissioner, James C. Allen, who was formerly building commissioner, and takes the same stand that I do—I mean this is a commission statement and he had difficulties of the same nature when he was in charge of the division.

Mr. SIMON. Do you know how long these practices have been going on?

Mr. McCREEDY. I would say at least from 1948 on.

Mr. SIMON. Had they been going on before 1948?

Mr. McCREEDY. I don't have any information in my files that I could produce here showing that it has.

Mr. SIMON. You don't know one way or another?

Mr. McCREEDY. No, sir.

The CHAIRMAN. We possibly will want a little more testimony from you later. If you will please stand by, we would appreciate it very much. We will ask you some more questions, I think, later.

Mr. CARRICO. May I interrupt, Senator? There have been some witnesses that came in before Mr. McCreedy took the stand.

The CHAIRMAN. If any witnesses arrived since we called the roll, will you please stand up and give your name?

Mr. CARRICO. William H. Carrico, Better Business Bureau.

Mr. BARBEAU. Albert R. Barbeau, Industrial National Bank.

Mr. KNECHT. Frederick Knecht.

Mr. COLTON. My name is Colton.

The CHAIRMAN. Our next will be Mr. William H. Carrico, manager of the building and construction division of the Detroit Better Business Bureau. Mr. Carrico, will you please come forward? Will you please be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

#### TESTIMONY OF WILLIAM H. CARRICO, DETROIT BETTER BUSINESS BUREAU

Mr. CARRICO. I do, sir.

The CHAIRMAN. Please be seated and give your full name and address and your affiliation to the reporter for the record, please.

Mr. CARRICO. William H. Carrico, 1431 O'Flanders, Detroit, manager of the building and construction division of the Better Business Bureau, Detroit.

Mr. SIMON. Mr. Carrico, would you speak into the microphone a little?

In connection with your better business bureau activities, have you received complaints from homeowners that they were defrauded under home-repair programs and under title I of the Housing Act?

Mr. CARRICO. We have.

Mr. SIMON. Would you tell the committee briefly what has been your experience with those complaints, Mr. Carrico?

Mr. CARRICO. Over the many years I have been connected with the bureau, we have received numerous complaints involving home repairs in the building field.

Mr. SIMON. How long have you been with the bureau?

Mr. CARRICO. 28 years.

Mr. SIMON. When did these complaints start coming in?

Mr. CARRICO. I would say, to my knowledge, our first experience involving FHA deals was shortly after the act was enacted.

Mr. SIMON. That was in 1934?

Mr. CARRICO. Thereabouts.

Mr. SIMON. Have they persisted continuously since?

Mr. CARRICO. We have had complaints consistently since.

Mr. SIMON. Will you tell the committee what has been the nature of those complaints?

Mr. CARRICO. Primarily on workmanship, on signing completion certificates ahead of time, the model-home racket.

Mr. SIMON. Has the model-home pitch been used in Detroit?

Mr. CARRICO. It has.

Mr. SIMON. Would you tell the committee how that has operated?

Mr. CARRICO. It has been operated by salesmen and companies who would send people out to knock on doors, to sell siding jobs, or various other remodeling work. They would first send out what is known as a bird dog. He would knock on the door and say that he represented a so-and-so manufacturer, and the sales manager was in town and would like to come out and make you a proposition. It won't cost you a penny.

The homeowner would be gullible, would fall for it. He would make an appointment. Then the high-pressure salesman would come along, tell the homeowner that he is representing a certain well-known manufacturer, which, of course, he wasn't, and would tell the homeowner that they were looking for homes in that neighborhood to use as a model. They would take before and after pictures of the house. They would advertise it over the radio, TV, and newspapers, to show what good work this particular company could do. They would say, "It won't cost you anything. All you have to do is sign these papers for credit information."

Sometimes they would say, "This is to show that we have been out here to visit your house."

Mr. SIMON. Those papers, of course, were the FHA application forms which constituted a note?

Mr. CARRICO. A contract.

Mr. SIMON. And the contractor company could take that paper to the bank and get a hundred percent from the bank?

Mr. CARRICO. And completion certificates at the same time.

In an hour, or at least the very next day, the company would come out and start work; not keep on working, but nail a few pieces of siding on the house, or tear off an eaves trough, or something like that and then finish it later. Two weeks later, maybe a month, they would get a payment book showing that some lending institution was demanding payment for 36 months. There has been evidence which I have in my file where, in filling out these contracts, they would falsify the contract by showing a downpayment that actually never was made. There is evidence in my file showing the salesmen, to further convince the homeowner, that it was going to be free, would write out a separate deal on the back of a contract, or separate sheet of paper saying that for every recommendation or every sale they would be paid 25 to 50 dollars.

There is evidence in the past where salesmen and companies have made payments to the lending institution to keep the account in line.

Mr. SIMON. Did the salesmen who used the model-home pitch generally operate on a par basis?

Mr. CARRICO. I am not quite familiar with your meaning of "par."

Mr. SIMON. Was the salesman told that the dealer wanted X dollars

for the job and everything the salesman could get over X dollars was his?

Mr. CARRICO. The dealers I have personally investigated have been along those lines. The contractor would work on maybe a cost-plus 10 percent and everything that was over that amount the salesman would get.

Mr. SIMON. Calling the amount which the contractor wanted to get for himself as par, and the salesman getting as his commission everything over par, have you had cases where the price the homeowner paid was as much as a hundred percent over par?

Mr. CARRICO. I would say three to four hundred percent over.

The CHAIRMAN. You mean the salesman would get 3 to 4 times as much as the dealer asked for?

Mr. CARRICO. Yes; that is the total amount of the contract.

The CHAIRMAN. How many cases have you had like that?

Mr. CARRICO. I have a record of 1 salesman, for instance, who sold 3 deals. They were in the neighborhood of \$1,600, and his take, the salesman's take was between \$800 and \$900 on each of those deals.

The CHAIRMAN. They were for how many dollars?

Mr. CARRICO. Two were \$1,600 or a little over, and I think one was \$1,400.

Mr. SIMON. What was the name of that salesman?

Mr. CARRICO. A. Gottlieb.

Mr. SIMON. Gottlieb or Gottlick? Do you have a letter with that information in it?

Mr. CARRICO. Yes; I do.

Mr. SIMON. Could we see it, please?

Mr. CARRICO. Gottlieb.

Mr. SIMON. Gottlieb?

Mr. CARRICO. Yes.

The CHAIRMAN. What dealer did he work for?

Mr. CARRICO. Cozy Home Development Co.

The CHAIRMAN. What bank financed the Cozy Home Improvement loans?

Mr. CARRICO. The one I checked was Industrial National Bank.

The CHAIRMAN. Cozy Homes was the dealer?

Mr. CARRICO. That is right.

The CHAIRMAN. And the Industrial National Bank was the banker?

Mr. CARRICO. That is right.

The CHAIRMAN. Let me ask you this: Do you think it is possible for these fellows to fleece the homeowners without some cooperation on the part of the salesman, dealer, and lending institution?

Mr. CARRICO. It is possible to—I would answer that, there is, in my opinion, a definite conspiracy between the company and the salesman.

The CHAIRMAN. Between the company—you mean the dealer?

Mr. CARRICO. The contractor and the salesman. It would have to be.

The CHAIRMAN. What about the lender, the man that lends the money? Don't you think—is he in on it, too?

Mr. CARRICO. I have no knowledge of that.

The CHAIRMAN. If not in on it, don't you think he is very careless?

Mr. CARRICO. My feeling would be that if the lending institution would put the ordinary precaution on lending money on FHA deals that they do on ordinary lending, that a lot of this stuff could be caught.

The CHAIRMAN. Do you think it is possible for a lending institution not to know the dealer that they are doing business with and the kind of salesman the dealer has?

Mr. CARRICO. They can get a report on a dealer company, on a contractor.

The CHAIRMAN. Once they get one complaint of the nature we have been discussing, there should have been such warning to stop doing business with that dealer, should there not?

Mr. CARRICO. I would think so if they were notified.

The CHAIRMAN. You have had an unusual amount of these home-repair cases in Detroit and Michigan, haven't you?

Mr. CARRICO. I have no knowledge of what it is elsewhere. We have had our headaches here; yes, sir.

The CHAIRMAN. Here in Detroit?

Mr. CARRICO. Yes, sir.

The CHAIRMAN. What has it run into, the dozens, hundreds, or thousands? I am talking about complaints over the last 20 years. Has it been in the hundreds or thousands?

Mr. CARRICO. It would be in the thousands—hundreds of thousands.

The CHAIRMAN. Hundreds of thousands?

Mr. CARRICO. I would say in the last 28 years.

The CHAIRMAN. Last 20 years you mean?

Mr. CARRICO. Twenty years.

The CHAIRMAN. The act was passed in 1934.

Mr. CARRICO. For instance, here during 1953, in the construction field, which includes new building and modernization, we had a little over 1,600 complaints.

The CHAIRMAN. One thousand six hundred complaints in Detroit?

Mr. CARRICO. Yes.

The CHAIRMAN. In the year 1953?

Mr. CARRICO. Yes.

The CHAIRMAN. What did you have in 1952?

Mr. CARRICO. I didn't bring those figures along.

The CHAIRMAN. Was it more or less?

Mr. CARRICO. I believe it was a little less. As a matter of fact, my report—

Mr. SIMON. How about 1951, 1950—do you have any other figures?

Mr. CARRICO. I don't have them with me. My report shows that 1952 were a little less. I don't have the exact amount.

The CHAIRMAN. It was about the same. In other words, it has been running about the same each year?

Mr. CARRICO. A little more each year.

The CHAIRMAN. You mean to say there have been thousands of cases here in Detroit?

Mr. CARRICO. That is right.

The CHAIRMAN. Over the years?

Mr. CARRICO. That is right.

The CHAIRMAN. Well, what have you done about it, or what has the better business bureau done about it?

Mr. CARRICO. Well, ever since the act was passed, I personally and the bureau have been trying to get some action taken, criminal prosecution on the model-home racket.

The CHAIRMAN. How can Mr. McCready, who just testified that the FHA did a good job here when you testified there has been literally thousands and thousands of cases?

Mr. CARRICO. I haven't testified that the FHA has done or has not done a good job.

The CHAIRMAN. No. I say Mr. McCready testified they did a good job; that you couldn't blame FHA officials for running it. You testify there have been thousands and thousands of cases. Why didn't they stop it?

Mr. CARRICO. I think Mr. McCready will testify there have been a great many complaints, too.

The CHAIRMAN. I know he will. Of course he will. My point is: Why wasn't it stopped? I mean why didn't FHA, the bankers, and the dealers stop it, particularly FHA and the lending institutions?

Mr. CARRICO. I don't know, sir.

The CHAIRMAN. These thousands and thousands of cases were from dealers that were borrowing money or selling their contracts to the same lending institutions, weren't they, over and over?

Mr. CARRICO. During that time, of course, there were quite a few companies and salesmen put on their so-called precautionary list, which slowed it down somewhat. Also there were some State prosecutions under various of them, and also we know there were quite a few over the period of the license law who lost their license.

The CHAIRMAN. Wherever we go we hear the same story of thousands and thousands of cases over the past years. The last 20 years in fact. We are trying to find out why FHA and the banks didn't stop it. The legitimate dealers themselves should have stopped it. Why wasn't it stopped? Can you give us any help as to why it wasn't stopped?

Mr. CARRICO. No. I have no idea why it wasn't. I know I have tried myself through our operation, through publicity, through cooperation with the Commission, with the building department and the State.

The CHAIRMAN. Did you have this situation we have found in other sections of the country, this pattern, where FHA would put a dealer on the precautionary list—and his salesmen—then he would go to the other part of town and start under another name and go to the same bank or lending institution and start all over again? Have you had that here?

Mr. CARRICO. I have one in mind particularly that was sent up on a State charge in 1945.

Mr. SIMON. But by "sent up," you mean went to jail?

Mr. CARRICO. Went to jail, involving an FHA deal.

The CHAIRMAN. What was his name?

Mr. CARRICO. Joseph Fargo.

The CHAIRMAN. Go ahead, please.

Mr. CARRICO. He was not necessarily operating the model-home pitch. He was just taking a deposit, money, and not completing jobs.

The CHAIRMAN. When he got out of jail, did he come back and start over again?

Mr. CARRICO. He came back, operating as a used-car salesman for a while, and in the last year and a half or so he has been working with his son in the home-modernization business.

The CHAIRMAN. What bank is financing his accounts?

Mr. CARRICO. I would have to check my files on that.

The CHAIRMAN. Can you check the file? It is very important. I can understand homeowners being fleeced for these kind of people. I know there are people with very little education. I can't understand, and that is one thing we are checking into very carefully, how they can fleece bankers, who ought to know and have facilities and money to check these people and certainly ought not to have been so hungry for business that they would be a part of fleecing the American homeowner. There has been too much of it going on. We found so much of it, it has really been sickening and nauseating.

Mr. SIMON. Are there any other companies that used the model-home pitch and home repairs in Detroit?

Mr. CARRICO. I don't know whether you would consider this home repairs. I certainly consider it in the modernization field. There are several companies who started out here prior to the first of the year offering and telling the public, and advertising that they could get free incinerators, no catch to it, just absolutely free.

Of course, the public found out later that they weren't free. Those deals were first financed under the FHA loan insurance. The FHA continued to, or the FHA around the first of the year cut it out, stopped their funds being used. Some of these lending institutions, however, kept on taking this paper and that was worked on more or less the model-home pitch, where they would turn in names to the company who would go out and sell, or try to sell them an incinerator and for every name that was turned in they would get \$20 to \$25, regardless of whether the sale was made or not. On one company alone there is over 250 complaints.

Mr. SIMON. Has your bureau had any experience with Morton Shuter?

Mr. CARRICO. To me that name is not familiar.

Mr. SIMON. Have you had any experience with Irving Swaab?

Mr. CARRICO. I have.

Mr. SIMON. How long has he been in the home repair business?

Mr. CARRICO. Irving Swaab was connected with Joe Fargo years ago, back in 1945, 1942, 1943; his son is one of the partners—I believe his son, some relative, is one of the partners in the Cozy Home Improvement.

Mr. SIMON. That is Gerald Swaab, is that right?

Mr. CARRICO. Yes.

Mr. SIMON. What was the business that Irving Swaab was in?

Mr. CARRICO. Modernization.

Mr. SIMON. What was the name of his company?

Mr. CARRICO. I would have to check my file on that. That is in at least 1942 or 1943.

Mr. SIMON. Has the bureau had any experience with Joseph Cesack?

Mr. CARRICO. That isn't familiar. I would have to check my file on that one, too.

Mr. SIMON. Are there any other experiences the bureau has had that you think should be called to the attention of this committee?

Mr. CARRICO. I can go into other examples of model home and completion slips if you care to do that.

Mr. SIMON. Would you care to do that briefly?

Mr. CARRICO. Yes.

We had complaints on Advance Construction Co.

Mr. SIMON. Who are the owners of that company? Was it a man named Marvin Kepps?

Mr. CARRICO. He was in on that, and Jack Chisik.

Mr. SIMON. How long have they been in the home modernization business?

Mr. CARRICO. Jack Chisik has been around here in the modernization business, according to my files, I believe——

The CHAIRMAN. They owned the Advance Construction Co. back in 1946; did they not?

Mr. CARRICO. Thereabouts.

The CHAIRMAN. They operated under the name of the Glendale Lumber & Supply Co. and under the name of Jack Chisik in 1948, and then again in 1950 Glendale, a partnership?

Mr. CARRICO. I believe so.

The CHAIRMAN. Then again in 1950, the Advance Construction Co., in 1951, the Cozy Home Improvement Co.?

Mr. CARRICO. Whether Jack Chisik was part of the Cozy Home my record didn't show.

The CHAIRMAN. For all practical purposes and in substance they were one and the same people?

Mr. CARRICO. Yes.

The CHAIRMAN. Now are they operating at the moment under the name of the Oak Park Building & Supply Co.?

Mr. CARRICO. That is Joe Fargo's son.

The CHAIRMAN. Who is he?

Mr. CARRICO. He is the one I just testified to that took about \$50,000 in 1945 on FHA deals, and contracts, and didn't do any work.

The CHAIRMAN. You mean just deliberately stole it?

Mr. CARRICO. He took contracts for it, and got money on completion slips from the lending institution.

Mr. SIMON. Who was the lending institution?

Mr. CARRICO. Midland Investment Co.

Mr. SIMON. Are they still in business?

Mr. CARRICO. I couldn't find them in the phone book yesterday when I checked that point.

The CHAIRMAN. I want the staff to look up the Midland Investment Co. and if they are still in business, get the officers over here or one of them. We want to talk a little bit about this and find out about the Midland Investment Co.

Who else financed these gentlemen or who else financed their contracts?

Mr. CARRICO. Midland was the only one that I know that handled Joe Fargo's accounts back in 1945.

The CHAIRMAN. They handled this entire \$50,000 worth? Is that your understanding?

Mr. CARRICO. Yes. I would like to make one correction. The total contracts were \$50,000. Fargo actually got from compliance and advance from the finance company a little over \$25,000.

The CHAIRMAN. You mean for his own use?

Mr. CARRICO. He was using it for his own use, and he would rob Peter to pay Paul.

The CHAIRMAN. He was setting up sort of strawmen, was he, signing the contracts?

Mr. CARRICO. He was.

The CHAIRMAN. Forging people's names to them and getting the money?

Mr. CARRICO. There was everything alleged in his deal. One of his partners was robbing mailboxes to get the——

The CHAIRMAN. The checks?

Mr. CARRICO. The payment books. I have some pictures on his deals, if the committee cares to see them. There was one deal particularly that was a very heart-rending situation—a woman around here who paid about \$2,100 for an addition to her house, and all she got was an 18-inch by a foot-wide foundation hole, and Fargo had gotten the complete money.

The CHAIRMAN. What year was that?

Mr. CARRICO. 1945.

The CHAIRMAN. That was 1945?

Mr. CARRICO. Yes.

The CHAIRMAN. Did you say Fargo is out of business now?

Mr. CARRICO. The last I heard he was still working for his son at Oak Park Co.

The CHAIRMAN. Oak Park Building & Supply Co. That was his son?

Mr. CARRICO. Yes.

The CHAIRMAN. Who was the lending institution handling their paper?

Mr. CARRICO. I would have to check my file when I get back to the office.

The CHAIRMAN. Would you let us know right after lunch?

Mr. CARRICO. Yes.

(The information was later received that the institutions referred to were the Allied Building Credit Co. and Industrial National Bank.)

The CHAIRMAN. Do you have anything more you think you can be helpful to us?

Mr. CARRICO. I could spend hours giving you examples.

The CHAIRMAN. I know that. We could have subpoenaed dozens and dozens and dozens, I presume, maybe several hundred people that have been fleeced here in Detroit, just as we could have wherever we have been. But all we are trying to do is to figure out the pattern and then take necessary steps, or see that the necessary steps are taken on the part of FHA and the banks and everybody concerned, to stamp it out and stop it. It is a nationwide scandal.

Mr. CARRICO. I found out these salesmen would come from out of town and quite a few of them used aliases. They wouldn't use their own names.

Mr. SIMON. Did you find a lot of them had long criminal records?

Mr. CARRICO. A few have. For instance, here is one man that——

The CHAIRMAN. That is the same pattern wherever we go.

Mr. CARRICO. Arnold A. Fox was a criminal from way back, a high pressure, confidential selling and racketeering.

The CHAIRMAN. Confidential selling, you mean confidence game selling?

Mr. CARRICO. Yes. He has turned up under an operation for his own name and a salesman for Jack Chisik.

The CHAIRMAN. Have you found these people operated in groups? They would come in and work one area today, saturate it, move on to another area?

Mr. CARRICO. From my knowledge, I wouldn't know that.

The CHAIRMAN. Do you know any reason why siding seems to be the most prevalent thing they would promote or sell, these chislers? We find more deals, bad deals, smelly deals, on siding than we do anything else.

Mr. CARRICO. I think the answer there is that the public probably is more gullible for that because they do want to improve their house, and siding does do it.

The CHAIRMAN. It improves the outward appearance of it?

Mr. CARRICO. Yes. And it gives them a chance to use the setup.

The CHAIRMAN. To use the model home setup?

Mr. CARRICO. Yes.

The CHAIRMAN. They call it pivot home sale.

Mr. CARRICO. These incinerator boys, quite a few of the salesmen were modernization salesmen prior. They go where the easy money is.

Mr. SIMON. Have they sold plastic paint jobs here on this basis?

Mr. CARRICO. It hasn't been too much.

Mr. SIMON. Mostly siding?

Mr. CARRICO. Yes.

The CHAIRMAN. Do you think it was possible for this to have continued here or any place else without the cooperation or at least the winking at, or looking in the other direction, by FHA, the lending institution as well as the dealers?

Mr. CARRICO. I have been told in the past that the FHA had no investigation of their own and everything would have to be handled through Washington. Whether that is the answer, I don't know.

The CHAIRMAN. The lending institutions were making the loans and processing the completion certificates, and the credit reports that were sent to them. Is it possible to pull the wool over the eyes of lending institutions? I can understand why they might get one bad egg, but is it possible for them to continue to do it over and over? Did you ever check into that particular phase of it?

Mr. CARRICO. I have somewhat and I have gotten various answers. One, of course, has been—we spot check the dealers and the deals we checked we couldn't find anything wrong with them.

The CHAIRMAN. Did you take this matter up with the local FHA office on many occasions or a few or what?

Mr. CARRICO. We have taken it up with the local FHA and the local district office.

The CHAIRMAN. What would they tell you?

Mr. CARRICO. I have a memo here.

The CHAIRMAN. You testified it was thousands of cases. It has been going on for 20 years. What did they tell you?

Mr. CARRICO. Here is a memo, November 8, 1951, it happened to be regarding Cozy Home Improvement and other model home selling:

This afternoon this writer had a long conference with Mr. Noonan outlining the approach used by these free lances in selling siding jobs in this territory. I

showed them the amount of profit or commission these boys made. We brought out in the discussion that although there is some control on modernization companies who accept such deals, by taking away their license or the FHA charging them to buy back the contract, the ringleaders were still in the clear. After checking the law, he suggested that he would, and did, dictate a letter to the FHA head counsel in Washington, making a request that they come up with some answer. He stated he would also check the law further and see if there is not something in it that would cover not only the fraudulent use in its entirety, and the FHA financing, but also the using of the FHA-insured money to pay a certain sum back to the customer.

The CHAIRMAN. What is the date of that?

Mr. CARRICO. November 8, 1951.

The CHAIRMAN. They were notified at least in November 1951.

Mr. CARRICO. Yes. Also, about a year and a half ago, I started mailing complaint letters to the local FHA office, and copy to the district attorney's office, and I heard, and the result of that was that the local office did start sending out letters to the company telling them they had better take care of the complaint and do it in a hurry and to let the better business bureau know what they were doing about it.

The CHAIRMAN. Thank you very much.

Mr. DINKINS. May I ask one question?

The CHAIRMAN. Yes.

Mr. DINKINS. Of these 1,600 complaints you referred to in 1953, did they all involve FHA loans?

Mr. CARRICO. No. They all were not. I have no way of knowing there what percentage that would be. On the modernization end of it, it probably would.

In addition to that now we had about the same amount of complaints in the real estate division, which, of course—no, 1,200 in the real estate division which would include new homes and FHA deals; some of these new homes would be FHA deals.

The CHAIRMAN. Thank you very much. We may want you a little later if you will remain, if you please.

Our next witness will be Mr. Gerald Swaab of 3219 Glendale Street, Detroit, Mich.

Mr. Swaab, will you please be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF GERALD SWAAB, COZY HOME IMPROVEMENT CO.,  
DETROIT, MICH., ACCOMPANIED BY HENRY P. ONRICH AND  
MELVIN ALTAR, COUNSEL**

Mr. SWAAB. I do.

The CHAIRMAN. This gentleman is your attorney?

Mr. SWAAB. Yes, sir.

The CHAIRMAN. You may be seated, too.

Mr. SIMON. Mr. Swaab, will you give the reporter your full name and address?

Mr. SWAAB. Gerald Swaab, 3219 Glendale.

Mr. SIMON. Your occupation?

Mr. SWAAB. Right now I am a foreman.

Mr. SIMON. Who are you employed by?

Mr. SWAAB. Weatherite contractor.

Mr. SIMON. How long have you been employed by that company?

Mr. SWAAB. About 4 weeks.

Mr. SIMON. What was your last prior occupation?

Mr. SWAAB. George Motor Sales.

Mr. SIMON. How long were you employed there?

Mr. SWAAB. About 3 months.

Mr. SIMON. What was your prior occupation to that?

Mr. SWAAB. Kotzen Motors.

Mr. SIMON. How long were you employed there?

Mr. SWAAB. Seven months.

Mr. SIMON. What was your last prior employment to that?

Mr. SWAAB. Ideal Plumbing Co.

Mr. SIMON. When were you employed there?

Mr. SWAAB. Previous to Kotzen Motors.

Mr. SIMON. During what period of time?

Mr. SWAAB. I can't remember the date.

Mr. SIMON. Do you know what year?

Mr. SWAAB. It would be the end of 1952, I believe.

Mr. SIMON. The end of 1952?

Mr. SWAAB. I believe so.

Mr. SIMON. For how long were you employed by them?

Mr. SWAAB. Up until the time I went to Kotzen.

Mr. SIMON. When was that, 1954, the end of 1953?

Mr. SWAAB. The end of 1953.

Mr. SIMON. What was your last connection prior to that?

Mr. SWAAB. Oak Park Building.

Mr. SIMON. When were you with Oak Park Building?

Mr. SWAAB. 1952.

Mr. SIMON. How long were you with them?

Mr. SWAAB. Until the time I went with Ideal.

Mr. SIMON. How long was that, a year, 2 year, 3 years?

Mr. SWAAB. Not quite a year.

Mr. SIMON. What was your last prior connection to that?

Mr. SWAAB. Firestone Construction.

The CHAIRMAN. Firestone Construction?

Mr. SWAAB. Yes, sir.

The CHAIRMAN. How long were you with them?

Mr. SWAAB. A couple of months.

The CHAIRMAN. Were they handling FHA-guaranteed loans or making sales under FHA-guaranteed loans?

Mr. SWAAB. Yes, sir.

Mr. SIMON. What was your past prior connection to that?

Mr. SWAAB. Cozy Home Improvement.

Mr. SIMON. How long were you with Cozy Homes?

Mr. SWAAB. I believe about a year and a half.

Mr. SIMON. What did you do before that?

Mr. SWAAB. Before that I was with Glendale Lumber.

Mr. SIMON. How long were you with Glendale?

Mr. SWAAB. I don't know. I don't remember the length of time.

Mr. SIMON. A year, 2 years, 3 years?

Mr. SWAAB. I think it was not quite a year even.

Mr. SIMON. That would be about 1948 or 1949?

Mr. SWAAB. 1949.

Mr. SIMON. What did you do before that?

Mr. SWAAB. I was in the Army.

Mr. SIMON. When did you get out of the Army?

Mr. SWAAB. The end of 1947.

Mr. SIMON. What did you do between the time you got out of the Army and the time you went to work for Glendale?

Mr. SWAAB. I worked for my father.

Mr. SIMON. What was your father's business?

Mr. SWAAB. Highland Supply Co.

Mr. SIMON. What were your duties for the Highland Supply Co.?

Mr. SWAAB. Truckdriver.

Mr. SIMON. What were your duties for Glendale?

Mr. SWAAB. Practically the same.

Mr. SIMON. Truckdriver?

Mr. SWAAB. Well, I delivered materials to the jobs.

Mr. SIMON. Did you ever do any selling?

Mr. SWAAB. No.

Mr. SIMON. You never did any selling for Glendale?

Mr. SWAAB. No, sir.

Mr. SIMON. Who owned Glendale?

Mr. SWAAB. I was the officer, qualifying officer.

Mr. SIMON. Was it a corporation or partnership?

Mr. ONRICH. Do you want me to answer that?

Mr. SIMON. No.

Mr. SWAAB. I don't remember.

The CHAIRMAN. You say you owned the business, and yet you drove the truck?

Mr. SWAAB. Yes, sir.

The CHAIRMAN. You didn't do any selling?

Mr. SWAAB. No, sir.

The CHAIRMAN. Who did the selling?

Mr. SWAAB. Other salesmen.

The CHAIRMAN. You were the truckdriver?

Mr. SWAAB. Yes.

The CHAIRMAN. A very interesting thing for a man owning a business to be the truckdriver.

Mr. SIMON. What were the names of your salesmen?

Mr. SWAAB. I don't even remember.

Mr. SIMON. Were any of these ex-convicts?

Mr. SWAAB. Not that I knew.

Mr. SIMON. Not that you know. Did you make any inquiry when you hired them?

Mr. SWAAB. I didn't hire them.

Mr. SIMON. Who hired them?

Don't you know who hired them, Mr. Swaab?

The CHAIRMAN. Did you, the truckdriver, hire them?

Mr. SWAAB. No, I didn't.

Mr. SIMON. Who did hire them?

Mr. ONRICH. He was more than the truckdriver for the purpose of the record.

Mr. SIMON. I am asking him who hired the salesmen. Who were your partners in the business? Do you know, Mr. Swaab, who your partners were?

Mr. Swaab, do you know who your partners were?

Mr. SWAAB. Jack Wasserman—Irving Wasserman.

Mr. SIMON. Just the two of you?

- Mr. SWAAB. Yes.
- Mr. SIMON. Did he hire the salesmen?
- Mr. SWAAB. Yes.
- Mr. SIMON. You are absolutely certain you never hired a salesman?
- Mr. SWAAB. Yes.
- Mr. SIMON. He hired them all; is that right?
- Mr. SWAAB. Yes.
- Mr. SIMON. Did the salesmen operate on the model-home pitch?
- Mr. SWAAB. Not that I know of.
- Mr. SIMON. Were any of your contracts ever closed on a model-home pitch?
- Mr. SWAAB. No.
- Mr. SIMON. You are absolutely certain of that?
- Mr. SWAAB. Yes.
- Mr. SIMON. You are under oath, you understand. Is that right?
- Mr. SWAAB. Yes.
- Mr. SIMON. And you say unequivocally that none of your contracts were ever closed on a model-home pitch; is that right?
- Mr. SWAAB. To the best of my knowledge.
- Mr. SIMON. Are you prepared to say they weren't?
- Mr. SWAAB. No, just to the best of my knowledge they weren't.
- Mr. SIMON. You don't know whether they were; is that what you are saying?
- Mr. SWAAB. Yes.
- Mr. SIMON. Did you make any investigation about your salesmen before they were hired?
- Mr. SWAAB. I didn't, no.
- Mr. SIMON. Did Wasserman?
- Mr. SWAAB. I can't say.
- The CHAIRMAN. Where is Mr. Wasserman today?
- Mr. SWAAB. I don't know.
- The CHAIRMAN. What bank financed your paper?
- Mr. SWAAB. I don't know that, either.
- The CHAIRMAN. You don't know that?
- Mr. SIMON. What happened to Glendale? Did it go out of business, go bankrupt, or did you sell it?
- Mr. SWAAB. Went out of business. It was sold, I believe.
- Mr. SIMON. Who did you sell it to?
- Mr. SWAAB. I am not certain. I think Mel Kepes.
- Mr. SIMON. K-e-p-e-s?
- Mr. SWAAB. Yes.
- Mr. SIMON. How much did he pay you for it?
- Mr. SWAAB. I don't know.
- Mr. SIMON. A hundred dollars, \$10,000?
- Mr. SWAAB. I don't know.
- Mr. SIMON. How much did you get out of it?
- Mr. SWAAB. Nothing.
- Mr. SIMON. You got nothing; is that right?
- Mr. SWAAB. Yes.
- Mr. SIMON. Who got the money he paid?
- Mr. SWAAB. Wasserman.
- Mr. SIMON. Wasserman got it all?
- Mr. SWAAB. To my knowledge, yes.

The CHAIRMAN. Were you a partner with him? Was it a corporation or a partnership?

Mr. SWAAB. I can't tell you.

The CHAIRMAN. Can your attorney tell?

Mr. ONRICH. It was a partnership.

Mr. SIMON. You got none of the money when you sold it?

Mr. ONRICH. There might not have been any money.

Mr. SIMON. He just got through saying there was.

Mr. SWAAB. I don't know how much it was.

Mr. SIMON. You don't know how much it was sold for or who got it?

Mr. SWAAB. That is right.

Mr. SIMON. Then you started out with Cozy Home Improvement?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Who were the partners in that?

Mr. SWAAB. Gerald Kepes and myself.

Mr. SIMON. Is he a brother of Mel Kepes?

Mr. SWAAB. Nephew.

Mr. SIMON. A nephew of Mel Kepes. You and Gerald Kepes started Cozy Homes?

Mr. SWAAB. Yes, sir.

Mr. SIMON. What was the business of Cozy Home?

Mr. SWAAB. Modernization business.

Mr. SIMON. Exclusively modernization? Is that your only business?

Mr. SWAAB. Yes.

The CHAIRMAN. What finance company or bank financed your accounts?

Mr. SWAAB. We used different banks.

Mr. SIMON. Which ones?

Mr. SWAAB. Industrial Bank.

The CHAIRMAN. Industrial National Bank?

Mr. SWAAB. Yes.

The CHAIRMAN. Is that here in Detroit?

Mr. SWAAB. Yes.

The CHAIRMAN. What other companies or banks?

Mr. SWAAB. Detroit Bank.

Mr. SIMON. The Detroit Bank? Is that the full name?

Mr. SWAAB. Yes.

The CHAIRMAN. What others?

Mr. SWAAB. I think the City Bank, if I am not mistaken.

The CHAIRMAN. About how much business did you do and finance under the name of the Cozy Home Improvement Co.? Was it \$10,000, \$100,000, a million or two million dollars, worth of business?

Mr. ONRICH. He wouldn't know that.

The CHAIRMAN. Why wouldn't he know?

Mr. ONRICH. Because he doesn't have any records now, Senator. That is over 3 years ago.

The CHAIRMAN. Was it less than \$10,000 or more than \$10,000? You wouldn't even remember that?

Mr. SWAAB. I don't remember the amounts.

Mr. SIMON. Did you file income-tax returns, Mr. Swaab?

Mr. SWAAB. Yes.

Mr. SIMON. Did they reflect all the income that you had during the time you were with Cozy Homes?

Mr. SWAAB. Yes, sir.

Mr. SIMON. How much was your income from Cozy Homes?

Mr. SWAAB. That I can't remember, either.

Mr. SIMON. Fifty thousand, ten thousand, five thousand?

Mr. SWAAB. Somewheres in the vicinity of \$5,000.

Mr. SIMON. For the year and a half it was in business?

Mr. SWAAB. I can't remember exactly the amount.

Mr. SIMON. Were you a half partner in Cozy Homes?

Mr. SWAAB. Yes.

Mr. SIMON. Did you have a salesman named A. Gottlieb?

Mr. SWAAB. No, sir.

Mr. SIMON. You didn't?

(There was a conference between Mr. Onrich and Mr. Swaab.)

Mr. ONRICH. He doesn't remember. He doesn't have records before him now.

Mr. SIMON. Did you ever hear of a man named A. Gottlieb?

Mr. SWAAB. Yes.

Mr. SIMON. You did hear of him?

Mr. SWAAB. Yes.

Mr. SIMON. Do you know him?

Mr. SWAAB. Yes.

Mr. SIMON. What is the first name?

Mr. SWAAB. Alfred, I believe.

Mr. SIMON. Alfred Gottlieb?

Mr. SWAAB. Yes.

Mr. SIMON. Did he ever work for you?

Mr. SWAAB. I don't remember.

Mr. SIMON. You don't remember whether he ever worked for you?

Mr. SWAAB. (Shakes head in negative.)

Mr. SIMON. Are you serious in saying you know the man but you don't remember whether he ever worked for you?

Mr. SWAAB. Yes, sir.

(There was a conference between Mr. Swaab and Mr. Onrich.)

Mr. SIMON. Do you know who he did work for?

Mr. SWAAB. He was not employed by me.

The CHAIRMAN. Who is the gentleman you are talking for?

Mr. ONRICH. He is my associate, Melvin Alter.

The CHAIRMAN. He is a lawyer representing you and your associate?

Mr. ONRICH. My associate.

The CHAIRMAN. We are glad to have him.

Mr. ONRICH. We are trying to help this committee wherever possible.

The CHAIRMAN. We appreciate that. We want you to help us if you can.

Mr. SIMON. Who did A. Gottlieb work for in 1951?

Mr. SWAAB. I don't know, sir.

Mr. ONRICH. What was the year?

Mr. SIMON. Were you ever represented by Henry P. Onrich?

Mr. SWAAB. Yes, Onrich.

Mr. SIMON. Was he your lawyer in October 1951?

Mr. SWAAB. Yes.

Mr. SIMON. He wrote a letter to the better business bureau October 25, 1951, with respect to three jobs that he said were sold by Cozy Home

Improvement, and in each one of them the salesman's commission went to A. Gottlieb. Does that refresh your memory any?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Was A. Gottlieb working for the Cozy Home Improvement in October 1951?

Mr. SWAAB. No, sir.

Mr. SIMON. Why did you pay him these commissions?

(There was a conference between Mr. Onrich and Mr. Swaab.)

Mr. SWAAB. At the time, when I was more or less a freelance salesman—

Mr. SIMON. How many jobs did he sell for Cozy Home Improvement?

Mr. SWAAB. Three, about three.

Mr. SIMON. Those are the only three?

Mr. SWAAB. I believe so.

Mr. SIMON. Are you absolutely certain of that?

Mr. SWAAB. No, I am not.

Mr. SIMON. Three are the only ones you mean we know about?

Mr. SWAAB. No, sir.

Mr. SIMON. How many jobs did he sell?

Mr. SWAAB. I don't remember.

Mr. SIMON. Was it 30?

Mr. SWAAB. I don't remember.

Mr. SIMON. Was it 60?

Mr. SWAAB. I don't remember.

The CHAIRMAN. Did he sell any jobs for you? Did he sell any jobs for you?

(There was a conference between Mr. Onrich and Mr. Swaab.)

Mr. SWAAB. As far as I know, just those three.

The CHAIRMAN. He did sell three jobs for you?

Mr. SWAAB. Yes.

Mr. SIMON. Are you sure it wasn't 16?

Mr. SWAAB. No, sir.

Mr. SIMON. What was your deal with Gottlieb? Do you know what your deal with Gottlieb was, Mr. Swaab?

(There was a conference between Mr. Onrich and Mr. Swaab.)

Mr. SIMON. Mr. Swaab, do you know what your deal with Gottlieb was?

(There was a conference between Mr. Onrich and Mr. Swaab.)

The CHAIRMAN. We want your lawyers to assist this gentleman, but I think you ought to do it out loud rather than whispering to him. In other words, did Mr. Gottlieb work for you?

Mr. SWAAB. No, sir.

Mr. SIMON. What was your deal with Gottlieb?

(There was a conference between Mr. Swaab and his counsel.)

Mr. ONRICH. This witness refuses to answer these questions the way you put them because of the constitutional privilege.

The CHAIRMAN. We will be glad to put them in any other way.

Let me ask you this, then, in order to put it the right way, if you think we are putting it the wrong way: What connection did Mr. Gottlieb have with your company?

Mr. ONRICH. This witness refuses to testify and stands on his constitutional right.

The CHAIRMAN. He is taking the fifth amendment?

Mr. ONRICH. Yes.

Mr. SIMON. I am sorry, but you cannot do that for him. He has to do it himself.

Mr. SWAAB. I refuse to answer.

Mr. SIMON. On what grounds?

Mr. SWAAB. Fifth amendment.

Mr. SIMON. You have to——

(There was a conference between Mr. Swaab and his counsel.)

Mr. SWAAB. That my testimony might incriminate me.

Mr. SIMON. What was the basis on which Mr. Gottlieb worked or did work for your company?

Mr. SWAAB. Salesman.

Mr. SIMON. Did you pay any money to any employees of banks to take your paper?

Mr. SWAAB. No, sir.

The CHAIRMAN. Of course, he has his own lawyers here. They ought to inform him that we don't want to take advantage of this witness or any other witness, but you cannot answer one question without answering them all.

Mr. SIMON. I take it you are aware of that, Counsel, that if he answers any question on the subject he loses his immunity on the subject.

The CHAIRMAN. Therefore, do you wish him to answer part of the questions from now on and refuse to answer the others under the fifth amendment?

My point is, your client just took the fifth amendment. He refused to answer because it would incriminate him. My point is, from this time on, he has got to refuse to answer all questions, because if he answers one, then he loses his immunity on that subject only.

Mr. ONRICH. Senator, I would like to clarify the position here.

The CHAIRMAN. What is there about this Gottlieb thing that this gentleman should refuse to testify?

Mr. ONRICH. Except this, that at the later date some of this testimony may be used against my client.

Mr. SIMON. If he feels his answers may incriminate him, as you know, he has a right to take that.

The CHAIRMAN. We are not going to force him to answer any questions against his wishes.

Mr. ONRICH. Senator, regarding your questions pertaining to whether or not he had any dealings with the bank, and so on, those are not the same questions that you asked about Gottlieb, so I feel that he can answer those questions in all fairness.

The CHAIRMAN. I hand you, then, as the attorney for this gentleman, a letter written by Henry P. Onrich, attorney, on October 25, 1951. Your client testified that Onrich was his attorney.

In this letter to the better business bureau he shows Mr. Gottlieb on three deals as having been the salesman, and that they paid him in one, \$801.09, and another \$962.28, and in a third one \$837.56. For example, let me say this: The contract price the homeowner paid \$1,434, and according to this gentleman, your witness' attorney, here were the costs. Clemensay Products Co., \$241.91; Braver Lumber Co., \$40; G. H. G. Roofers, \$176; and the house, I don't know what they mean by that, I presume Cozy Homes, \$175; and A. Gottlieb, \$801.09, which means to us that that homeowner out there—that Gottlieb, the sales-

man, got \$901.09 out of a total of \$1,434. The same thing is true on the second one.

Your attorney gave the name of the jobs and the address of the people.

Mr. ONRICH. I wrote that letter, Senator.

The CHAIRMAN. Are you Mr. Onrich?

Mr. ONRICH. That is me, Your Honor.

The CHAIRMAN. You wrote the letter?

Mr. ONRICH. Yes.

Mr. SIMON. Where did you get the information that is in that letter, Mr. Onrich?

Mr. ONRICH. It was submitted from the books and records and Mr. Swaab doesn't have the books and records. He can't testify. He doesn't remember a thing about those figures. Those records are accurate.

Mr. SIMON. He would be in a better position to say what he remembers.

Mr. ONRICH. That is right. Some of the questions you have propounded to him he couldn't possibly remember because since that time, according to your questions that you have asked previously, he has had a number of other employments.

Mr. SIMON. Let us ask this question:

Could you possibly remember the basis on which you paid Mr. Gottlieb?

(There was a conference between Mr. Onrich and Mr. Swaab.)

Mr. SWAAB. You can answer that.

Mr. SIMON. Just whether you remember. What was the basis?

(There was a conference between Mr. Onrich and Mr. Swaab.)

Mr. SIMON. We want your testimony, Mr. Swaab.

Mr. ONRICH. He doesn't know how to explain that. He is not familiar with—he will agree to testifying and adopt Mr. Carrico's statement about how they operated.

Mr. SIMON. We haven't asked him to agree to anything. We want to know the basis on which he compensated or the basis on which Gottlieb was paid.

Mr. ONRICH. I could clarify that better than he can.

Mr. SIMON. Let us let him testify unless you know these matters of your own knowledge, in which case we would be glad to swear you and have you testify.

Mr. ONRICH. I know of these three matters. Those are the only three complaints Cozy ever had against them.

The CHAIRMAN. Let us swear you. We will ask you about this letter.

Mr. ONRICH. Unless you want to interrogate on this letter.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ONRICH. I do.

The CHAIRMAN. We will ask you about this letter: I hand you this letter and ask you if you wrote that letter on the day given there?

Mr. ONRICH. Yes. I wrote this letter to better business bureau on October 25, 1951.

The CHAIRMAN. What was the occasion of writing the letter to the better business bureau?

Mr. ONRICH. I don't recall now.

Mr. SIMON. Are the facts in that letter true?

Mr. ONRICH. The facts in this letter is correct.

Mr. SIMON. Where did you get the facts?

Mr. ONRICH. I got the facts from a document submitted to me by the Cozy Home Improvement Co.

Mr. SIMON. What was the document?

Mr. ONRICH. Just a breakdown of the figures, cost of each job.

Mr. SIMON. On what basis was Gottlieb compensated by Cozy Home?

Mr. ONRICH. On the basis that Mr. Carrico testified a few minutes ago, that he was a free lance, one of those salesmen that were operating on a free-lance brokerage business, and they took all the profits. The house got 10 percent. As you will notice from these figures.

Mr. SIMON. You mean by that that the salesman sold on a basis of par, and everything he got above par was his?

Mr. ONRICH. I don't know about par, but cost of the job plus 10 percent off the top, is what they considered that kind of a deal.

Mr. SIMON. Who gave him the cost of the job?

Mr. ONRICH. Whoever the contractor hired to do the work.

Mr. SIMON. Did Cozy Home have any mechanics of its own?

Mr. ONRICH. I couldn't answer that. I don't know.

Mr. SIMON. Who would know that?

Mr. ONRICH. As I understand—

Mr. SIMON. Would Mr. Swaab know that?

Mr. ONRICH. This is Mr. Swaab here.

Would you know?

Mr. SWAAB. No.

Mr. SIMON. Did Cozy Home have any mechanics?

Mr. SWAAB. No, sir.

Mr. SIMON. You subcontracted everything?

Mr. SWAAB. Yes.

Mr. SIMON. So all you did was make arrangements with subcontractors on the one hand, to do the work, and with these people you call free-lance salesmen, on the other hand, to sell the homeowner; is that right?

Mr. SWAAB. Yes.

Mr. SIMON. Is that right?

Mr. SWAAB. Yes.

Mr. SIMON. And you got 10 percent of every contract for being in the middle, and the salesman got whatever he could talk the homeowner out of; is that right?

(There was a conference between Mr. Onrich and Mr. Swaab.)

Mr. SIMON. Is that right?

Mr. SWAAB. Yes.

Mr. SIMON. Did Gottlieb use the model-home pitch?

Mr. ONRICH. He doesn't know.

Mr. SIMON. Let him answer.

Mr. ONRICH. Say you don't know.

Mr. SWAAB. I don't know.

Mr. SIMON. Do you know what sales pitch Gottlieb did use?

Mr. SWAAB. No, sir. I was never in the house with him.

Mr. SIMON. Did you have any interest in what sales pitch he used?

Mr. SWAAB. I don't understand what you mean.

Mr. SIMON. Do you know what a sales pitch is?

Mr. SWAAB. Yes.

Mr. SIMON. Did you have any interest in what sales pitch was used by a man selling your products?

(There was a conference between Mr. Onrich and Mr. Swaab.)

Mr. SWAAB. Yes.

Mr. SIMON. Do you know whether Gottlieb did use the model-home pitch?

Mr. SWAAB. No, sir.

Mr. SIMON. You don't know?

Mr. SWAAB. No, sir.

Mr. SIMON. How many other salesmen or free-lance brokers did you have?

Mr. SWAAB. I don't remember now.

Mr. SIMON. Two hundred or two?

(There was a conference between Mr. Onrich and Mr. Swaab.)

Mr. SWAAB. I don't remember.

Mr. SIMON. Do you remember whether it was closer to 200 or 2?

Mr. SWAAB. I don't remember.

The CHAIRMAN. You were half owner of this business?

Mr. SWAAB. Yes.

The CHAIRMAN. You don't remember such simple questions as these; is that right?

(There was a conference between Mr. Onrich and Mr. Swaab.)

The CHAIRMAN. Is that right, that you do not remember such simple questions as these?

Mr. SWAAB. It was closer to 2 than 200.

Mr. SIMON. Two or twenty?

Mr. SWAAB. I don't remember.

Mr. SIMON. Do you know a young lady named Doris Haydon or Doris Helies? Do you know her?

Mr. SWAAB. Yes.

Mr. SIMON. Did you ever have any business dealings with her?

Mr. SWAAB. No, sir.

Mr. SIMON. None whatever?

(There was a conference between Mr. Onrich and Mr. Swaab.)

Mr. SIMON. Don't you know whether you had any business dealings with her without consulting with your lawyers?

Mr. SWAAB. Yes, sir.

Mr. SIMON. You never had any business dealings with her?

Mr. SWAAB. No, sir.

(There was a conference between Mr. Onrich and Mr. Swaab.)

Mr. SIMON. In what way did you know her? Where did you meet her?

Mr. SWAAB. From calling deals into the bank.

The CHAIRMAN. Calling deals into the banks?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Wouldn't you call that business dealings?

What dealings did you have with her?

Mr. SWAAB. None other than calling deals into the bank.

Mr. SIMON. What do you mean by calling deals into the bank?

Mr. SWAAB. Call the credit applications into the bank.

Mr. SIMON. For title I loans?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Wouldn't you call that a business dealing?

Mr. SWAAB. With the bank; yes.

Mr. SIMON. Did you ever have any business dealings with the Industrial Bank that she handled?

(There was a conference between Mr. Swaab and Counsel Onrich.)

Mr. SIMON. Do you know that without consulting lawyers?

Mr. SWAAB. Yes.

Mr. SIMON. You did. How many times did you have business dealings with her?

Mr. SWAAB. I don't remember.

Mr. SIMON. Two or two hundred?

Mr. SWAAB. I don't remember.

Mr. SIMON. What was the nature of the business dealings you had with her?

Mr. SWAAB. Just calling in credit applications.

Mr. SIMON. You just called in. What do you say when you call in?

The CHAIRMAN. Calling on the telephone?

Mr. SWAAB. Yes, sir.

Mr. SIMON. What do you say when you call on the telephone?

Mr. SWAAB. Just give the name of the company and call on the telephone.

The CHAIRMAN. The name to whom the sale had been made?

Mr. SWAAB. No, to the company, our company.

Mr. SIMON. You gave your company's name?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Is that right?

Mr. SWAAB. Yes, sir.

Mr. SIMON. You gave the name of the homeowner?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Did you say anything else?

Mr. SWAAB. No, sir.

Mr. SIMON. Not another word?

Mr. SWAAB. Except the rest of the credit application.

Mr. SIMON. What is the rest of the application?

Mr. SWAAB. All the credit information.

Mr. SIMON. What was that?

Mr. SWAAB. References, etc.

Mr. SIMON. Did you ever send in a written credit application to the bank?

Mr. SWAAB. When the job was completed.

Mr. SIMON. What was the purpose of your telephone call?

Mr. SWAAB. Pardon?

Mr. SIMON. What was the purpose of your telephone call?

Mr. SWAAB. Every deal was called into the bank.

Mr. SIMON. What was the purpose of it?

Mr. SWAAB. To get an approval on the loans.

Mr. SIMON. You did that over the telephone?

Mr. SWAAB. Yes.

Mr. SIMON. Did you pay any money for that?

Mr. SWAAB. No, sir.

Mr. SIMON. Did you ever give any gifts or gratuities to Mrs. Helies?

Mr. SWAAB. No, sir.

Mr. SIMON. You are absolutely certain of that?

Mr. SWAAB. Yes, sir.

(There was a conference between Mr. Swaab and Counsel Onrich.)

Mr. SIMON. Do you know that without consulting your lawyer or do you need your lawyer's help on that?

Mr. SWAAB. Pardon?

Mr. SIMON. My question was, do you know that without consulting with your lawyer?

Mr. SWAAB. I need no lawyer.

The CHAIRMAN. You are under oath, now, and you are certain you did not?

Mr. SWAAB. Yes, sir.

(There was a conference between Mr. Swaab and Counsel Onrich.)

Mr. SIMON. No gifts or gratuities of any kind?

Mr. SWAAB. No, sir.

The CHAIRMAN. Didn't you pay her a settlement on each sale?

Mr. SWAAB. No, sir.

Mr. SIMON. Did you pay anybody else for her approval of these notes?

Mr. SWAAB. No, sir.

Mr. SIMON. Did you have any dealings with Wallace Helies?

Mr. SWAAB. No, sir.

Mr. SIMON. You never had any business dealings with him at all?

Mr. SWAAB. No, sir.

Mr. SIMON. You never paid him any money?

Mr. SWAAB. No, sir.

Mr. SIMON. Did anybody else in your organization pay any money to either Mr. or Mrs. Helies as a gift?

Mr. SWAAB. No, sir.

Mr. SIMON. As a gift, gratuity, or loan?

Mr. SWAAB. No, sir.

Mr. SIMON. You are absolutely certain of that?

Mr. SWAAB. Yes.

Mr. SIMON. Where are the books of Cozy Homes or Cozy Home Improvement?

Mr. SWAAB. Our accountant, I imagine, has them.

Mr. SIMON. Who is your accountant?

Mr. SWAAB. Sidney Warnick.

The CHAIRMAN. What is his address?

Mr. SWAAB. I don't know.

The CHAIRMAN. Is it in Detroit?

Mr. SWAAB. Yes, sir.

Mr. SIMON. On what street?

Mr. SWAAB. I am not sure. I think it might be Kentucky.

Mr. SIMON. Do those books reflect all of the income of Cozy Home?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Do they reflect all of the money you paid to anybody?

Mr. SWAAB. Yes, sir.

Mr. SIMON. What happened to Cozy Home? Did you sell it out or go bankrupt?

(There was a conference between Mr. Swaab and Counsel Onrich.)

Mr. SWAAB. Just went out of business.

Mr. SIMON. Go bankrupt?

Mr. SWAAB. No, sir.

Mr. SIMON. Just went out of business?

Mr. SWAAB. Yes.

Mr. SIMON. Why did it go out of business?

Mr. SWAAB. Just closed up and went out of business.

Mr. SIMON. Why? Did you get into difficulties?

Mr. SWAAB. No.

Mr. SIMON. Were there too many complaints against the company?

Mr. SWAAB. No, sir.

Mr. SIMON. Why did it go out of business?

Mr. SWAAB. I just decided to close up.

Mr. SIMON. You went to work for Firestone Construction?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Who owns that?

Mr. SWAAB. Allen Markowitz.

Mr. SIMON. Anybody else?

Mr. SWAAB. No, sir.

Mr. SIMON. What did you do there?

Mr. SWAAB. Sold.

Mr. SIMON. You were a salesman?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Did you ever use the model home pitch?

Mr. SWAAB. No, sir.

Mr. SIMON. You are absolutely certain of that?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Did you sell on a par deal? Did you get all above a certain amount to the salesmen?

(There was a conference between Mr. Swaab and Counsel Onrich.)

Mr. ONRICH. I wonder if you could clarify the questions.

Mr. SIMON. Did they tell you what the price was, and you got everything above that price?

Let me ask you this: On what basis did you get paid?

(There was a conference between Mr. Swaab and Counsel Onrich.)

Mr. SIMON. Mr. Swaab, don't you know how they paid you?

Mr. SWAAB. Yes, sir.

Mr. SIMON. How did they pay you? What was the basis of your getting paid?

Mr. SWAAB. Some of the deals were different than others. As a rule, we paid the same as we were receiving at Cozy.

Mr. SIMON. You mean by that that you got whatever you could get over a certain amount, whatever you could get from the homeowner was yours.

(There was a conference between Mr. Swaab and Counsel Onrich.)

Mr. SIMON. Don't you know how they paid you, Mr. Swaab?

(There was a conference between Mr. Swaab and Counsel Onrich.)

Mr. ONRICH. I would like to have a conference with him because that is something that I didn't know much about. I—

The CHAIRMAN. He ought to be able to know.

Mr. Swaab, how did they pay you? Did they pay you a salary? Did they pay you a commission, or did they pay you everything that you received over a certain amount that you sold the product for?

Mr. SWAAB. A commission basis.

Mr. SIMON. What was the commission?

The CHAIRMAN. How much was the commission? 3 percent, 5, 10, 15, 20?

Mr. SWAAB. It varied.

The CHAIRMAN. It varied from what? 5 to 100 percent?

Mr. SWAAB. No, sir.

Mr. SIMON. Just what was the basis? Was it a different commission for different types of work?

Mr. SWAAB. Yes.

Mr. SIMON. What commission was it for what type of work?

(There was a conference between Mr. Swaab and Counsel Onrich.)

Mr. SIMON. Mr. Swaab, don't you know how they paid you?

(There was a conference between Mr. Swaab and Counsel Onrich.)

Mr. SWAAB. It is the same as we had at Cozy. He took 10 off the price of the deal.

Mr. SIMON. Did you know that 20 minutes ago, or did you have to find that out from your lawyers?

Mr. SWAAB. I knew it.

Mr. SIMON. You knew it all the time?

Mr. SWAAB. Yes, sir.

Mr. SIMON. He took 10 percent off and you got the rest; is that right?

Mr. SWAAB. Yes.

Mr. SIMON. What sales arguments did you make to these homeowners?

Mr. SWAAB. I don't understand what you mean.

Mr. SIMON. What sales talk did you give the homeowner?

(There was a conference between Mr. Swaab and Counsel Onrich.)

Mr. SIMON. Your lawyer can't tell you that.

Mr. SWAAB. As far as model pitch, I didn't use it.

Mr. SIMON. I asked you what sales talk you gave the homeowner?

Mr. SWAAB. Depending on what I was selling.

Mr. SIMON. When you were selling siding, what did you say?

Mr. SWAAB. I sold very few siding jobs. As far as what I said to them, I showed them the material, measured the house, told them how much the job was going to cost them, what kind of molding or corners or whatever it was that went on the job, how much the monthly payment was.

Mr. SIMON. Is that all you ever said?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Never even told them it would be a good job?

Mr. SWAAB. I told them it would be a good job.

Mr. SIMON. Did you ever tell them their home would be a model?

Mr. SWAAB. No, sir.

Mr. SIMON. Advertising home?

Mr. SWAAB. No, sir.

Mr. SIMON. You are absolutely certain of that?

Mr. SWAAB. Yes, sir.

Mr. SIMON. You are certain we cannot find one witness who will say you used a model home sales argument?

Mr. SWAAB. Yes, sir.

The CHAIRMAN. You said a moment ago you didn't know why Cozy Homes went out of business. Didn't you know that the Michigan

Corporation and Securities Commission canceled your license in July 1952?

Mr. SWAAB. That is what I was asking my attorney, sir.

The CHAIRMAN. Didn't you know that yourself as half owner of that business?

Mr. SWAAB. It was taken away, and at one time given back after we asked for it back.

The CHAIRMAN. You testified a moment ago that you never did any selling for Oak Park Building & Supply Co.; is that correct?

Mr. SWAAB. No, sir; I didn't say that.

The CHAIRMAN. You did sell for them?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Who owns Oak Park Building & Supply?

Mr. SWAAB. Jack Fargo.

Mr. SIMON. Jack Fargo?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Is he the sole owner?

Mr. SWAAB. Yes, sir.

Mr. SIMON. Did you work for him in 1952?

Mr. SWAAB. I can't remember.

The CHAIRMAN. What is that?

Mr. SWAAB. I don't remember.

The CHAIRMAN. Did you work for him in 1953?

Mr. SWAAB. Not in 1953. I believe it was 1952.

The CHAIRMAN. You did work for him?

Mr. SWAAB. Yes.

The CHAIRMAN. I show you a sales contract that you made on April 13, 1953, and ask you if that is your signature as a salesman?

Is that your signature?

Mr. SWAAB. Yes, sir.

The CHAIRMAN. You did work for him in 1953; is that right?

Mr. SWAAB. Yes, sir.

The CHAIRMAN. Thank you.

Let us have it back.

Where did you say Cozy Home's books were?

Mr. SWAAB. With the accountant.

The CHAIRMAN. What was the address of it?

Mr. SWAAB. I don't know the address.

The CHAIRMAN. You notify your accountant we are subpoenaing books of Cozy Home, and tell him not to move any of them or take any papers out. We will serve a subpoena on you this afternoon to produce for this committee all the books of Cozy Home.

Mr. SWAAB. Yes, sir.

The CHAIRMAN. We will dismiss you for the moment, because we want you to remain around.

Our next witness will be Mr. Gerald Kepes, 23820 Morton, Oak Park, Mich.

Will you come forward, Mr. Kepes?

Will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF IRWIN GERALD KEPES, COZY HOME IMPROVEMENT  
CO., DETROIT, MICH., ACCOMPANIED BY HENRY P. ONRICH,  
COUNSEL**

Mr. KEPES. Yes, sir.

The CHAIRMAN. Please be seated and give your full name and address to the reporter for the record, please.

Mr. KEPES. Irwin Gerald Kepes.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. What is your address, Mr. Kepes?

Mr. KEPES. 23820 Morton.

Mr. ONRICH. What city is that?

Mr. KEPES. Oak Park, Mich.

Mr. SIMON. What is your business?

Mr. KEPES. I work for Arrow Heating Co.

Mr. SIMON. Arrow Heating Co.?

Mr. KEPES. Yes, sir.

Mr. SIMON. How long have you worked there?

Mr. KEPES. Approximately since March 1952.

Mr. SIMON. What did you do before that?

Mr. KEPES. I was with the Cozy Home Improvement Co.

Mr. SIMON. For how long?

Mr. KEPES. About 15 months.

Mr. SIMON. What did you do before that?

The CHAIRMAN. Were you a partner, half-owner of Cozy Homes?

Mr. KEPES. Yes, sir.

Mr. SIMON. What did you do before that?

Mr. KEPES. I was with the Arrow Heating Co.

Mr. SIMON. What is the business of Arrow Heating Co.?

Mr. KEPES. Heating and air-conditioning contractors.

Mr. SIMON. Do they sell on title I home financing?

The CHAIRMAN. FHA financing?

Mr. KEPES. They do but very little of it.

The CHAIRMAN. Are you a salesman for them?

Mr. KEPES. No, sir.

Mr. SIMON. What do you do?

Mr. KEPES. I am their superintendent.

Mr. SIMON. What did you do when you worked for Cozy Home or when you were a partner in Cozy Home?

Besides take half of the profit, what else did you do?

The CHAIRMAN. How many employees did Cozy Home have?

(There was a conference between Mr. Kepes and Counsel Onrich.)

Mr. SIMON. Mr. Kepes, do you know how many employees they had?

The CHAIRMAN. Were you a half-owner in Cozy Home?

Mr. KEPES. Yes, sir.

The CHAIRMAN. How many employees did you have? Did you sign the checks?

Mr. KEPES. Yes.

The CHAIRMAN. How many employees did you have?

Mr. KEPES. One.

The CHAIRMAN. One employee, and who was that?

Mr. KEPES. The office help.

The CHAIRMAN. You just had you and the witness we had here, Mr. Swaab. You and Mr. Swaab owned it. You had one office employee; is that right?

Mr. KEPES. (Shakes head in affirmative.)

The CHAIRMAN. How many salesmen did you have?

(There was a conference between Mr. Kepes and Counsel Alter and Onrich.)

Mr. SIMON. Do you know, Mr. Kepes? Do you know?

The CHAIRMAN. Do you know how many salesmen you had?

Mr. KEPES. Actually we never employed the salesmen.

The CHAIRMAN. How many people did you have out selling for you that turned the contracts or orders in to you? Approximately how many? Was it 5, 10, 15? I know it possibly varied, but did it vary from 1 to 100 or what?

You don't remember?

Mr. KEPES. That I don't remember.

The CHAIRMAN. What bank did you sell your contracts to that was guaranteed by the FHA?

Mr. KEPES. Well, we dealt with the National Bank.

The CHAIRMAN. What is the name of the bank?

Mr. KEPES. National Bank.

The CHAIRMAN. Industrial National Bank?

Mr. KEPES. The National Bank, Industrial National Bank.

The CHAIRMAN. You sold your paper to them?

Mr. KEPES. Yes, sir.

The CHAIRMAN. Just you and Mr. Swaab and one girl, and you don't know how many salesmen you had, and yet you took FHA contracts and papers and the Industrial National Bank and other banks discounted it?

Mr. KEPES. That is right.

The CHAIRMAN. Did you give them a credit report or statement on your concern? What was the net worth of this company, this Cozy Home? How much money did you have? What was your net worth?

Mr. KEPES. That I don't remember.

The CHAIRMAN. Are you certain, now, that you did finance with Industrial National Bank? Is that what Mr. Swaab testified to?

Mr. KEPES. (Shakes head in affirmative.)

The CHAIRMAN. I want to subpoena, if necessary, the records of the Industrial National Bank. I want all the files from that bank that have to do with Cozy Home. I want them here this afternoon. Our staff will ask them to deliver them this afternoon—all the files on Cozy Home, showing the credit reports and all the transactions that this bank had with this concern.

Mr. SIMON. Mr. Kepes, how much business did Cozy Home do in the 15 months it was in business?

(There was a conference between Mr. Kepes and Counsel Onrich.)

Mr. KEPES. That I don't remember.

Mr. SIMON. Did you do a million dollars' worth of business?

Mr. KEPES. I don't remember.

Mr. SIMON. You don't remember whether it was a million dollars worth of business, Mr. Kepes?

Mr. KEPES. No, sir.

Mr. SIMON. Was it \$2 million worth of business?

(No response.)

Mr. SIMON. Mr. Kepes, I didn't hear you.

The CHAIRMAN. Why is it you can't remember or don't want to remember, Mr. Kepes? What is there about this whole business that is so secret?

Mr. ONRICH. We will have our books——

The CHAIRMAN. Was there something wrong, or what is it?

Mr. KEPES. It was quite a while ago. Most of the stuff I really don't remember.

Mr. SIMON. Do you remember how much you took out of the business?

The CHAIRMAN. What was your salary during that period when you owned half interest in this company?

(There was a conference between Mr. Kepes and Counsel Onrich.)

The CHAIRMAN. Maybe the files of the bank will throw some light upon this company.

Mr. ONRICH. Also the books and records which Your Honor has subpoenaed will reflect that.

The CHAIRMAN. The books and records will shed some light on this.

Mr. SIMON. Do you know how much money you took out of Cozy Home in the 15 months you were there?

Mr. KEPES. No, sir; I don't.

Mr. SIMON. Was it \$100,000?

The CHAIRMAN. Was it \$1,000?

Mr. KEPES. I don't remember that, either.

Mr. SIMON. You don't remember that?

Mr. KEPES. (Shakes head in negative.)

Mr. SIMON. Did you ever file income-tax returns?

Mr. KEPES. Yes.

Mr. SIMON. Did you record all the income you had from Cozy Home in your tax returns?

Mr. KEPES. Yes.

Mr. SIMON. How much did you say in your tax returns you received from Cozy?

Mr. KEPES. That, sir, I don't remember, either.

The CHAIRMAN. Could you deliver the books of the company by 2 o'clock this afternoon, and have your accountant bring the books up here to this room?

Mr. ONRICH. Can you have the books and records of your company here?

Mr. KEPES. Yes.

The CHAIRMAN. Will you bring them up at 2 o'clock?

Mr. KEPES. Yes.

(There was a conference between Mr. Kepes and Counsel Onrich.)

Mr. ONRICH. Didn't you tell me someone from the Government has these books?

The CHAIRMAN. What department of the Government has these books?

Mr. KEPES. This was 2 months ago they were checking the books and records.

The CHAIRMAN. Who was checking the books and records?

Mr. KEPES. Internal Revenue.

The CHAIRMAN. Your certified public accountant does have them now?

Mr. KEPES. Yes, sir.

The CHAIRMAN. You bring them in here this afternoon, if you please.

We will excuse you now just temporarily. You are under subpoena, and we will just extend the subpoena to the balance of the day and tomorrow and maybe later.

Is Miss Helen Parker Bennett here?

(No response.)

The CHAIRMAN. I find that part of the names, witnesses whose names I called this morning, were subpoenaed for 2 o'clock today rather than 10 o'clock. I want the record to show that. I don't want the record to indicate that they were absent when the subpoenas I now understand called for 2 o'clock.

Doris Helies, please.

Are you present?

Mrs. Doris Helies, will you come forward, please.

Will you be sworn?

Mrs. HELIES. No pictures, please.

The CHAIRMAN. No pictures. We will observe the wishes of the witness in that respect.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF MRS. DORIS MAME HELIES, COZY HOME  
IMPROVEMENT CO., DETROIT, MICH**

Mrs. HELIES. I do.

The CHAIRMAN. Please be seated and give the reporter your full name and address for the record.

Mrs. HELIES. Doris Mame Helies.

The CHAIRMAN. Your address is 1989 West Grand Boulevard, Detroit, Mich.?

Mrs. HELIES. That is right.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Were you employed by the Industrial National Bank?

Mrs. HELIES. I was, sir.

Mr. SIMON. When?

Mrs. HELIES. I believe from 1949 until 1953, July of 1953.

Mr. SIMON. What were your duties at the bank?

Mrs. HELIES. I was hired as a credit investigator.

Mr. SIMON. I can't hear you.

Mrs. HELIES. I was hired in as a credit investigator.

Mr. SIMON. In the title I loans?

Mrs. HELIES. No, in everything.

The CHAIRMAN. Everything, you say?

Mrs. HELIES. Yes, automobile loans.

Mr. SIMON. Did your work include credit investigating for title I loans?

Mrs. HELIES. Yes.

Mr. SIMON. On the title I loans did you pass on the credit of the borrowers?

Mrs. HELIES. Not until, I believe it was, the latter part of 1952; I don't remember the dates.

Mr. SIMON. The latter part of 1952 you began passing on the credit of the borrowers?

Mrs. HELIES. Yes, sir.

Mr. SIMON. Who were the dealers whose credit you passed on?

Mrs. HELIES. Just about every dealer that we had in the bank.

Mr. SIMON. Did you handle any of the paper for Irving Swaab?

Mrs. HELIES. I don't believe we had him as a dealer, sir.

The CHAIRMAN. Cozy Home?

Mrs. HELIES. I don't think so.

Mr. SIMON. Did you handle any of the paper for the Hell-Bend Co.?

Mrs. HELIES. No.

Mr. SIMON. Did you ever hear of the Hell-Bend Co.?

Mrs. HELIES. Yes, sir; I did.

Mr. SIMON. You never handled any paper for them?

Mrs. HELIES. No, sir.

Mr. SIMON. Were you present at the bank when a Mrs. Helen Parker Bennett received a loan?

Mrs. HELIES. Yes, I was.

Mr. SIMON. Did you pass on her credit?

Mrs. HELIES. I did.

Mr. SIMON. Who brought her in to the bank?

Mrs. HELIES. I believe she came in of her own volition,

Mr. SIMON. Are you sure she didn't come in with Jack Chisik?

Mrs. HELIES. I don't know.

Mr. SIMON. Do you know Jack Chisik?

Mrs. HELIES. Yes, I do.

Mr. SIMON. Do you recall the time she came into the bank?

Mrs. HELIES. I don't remember the exact date.

Mr. SIMON. Do you recall the instance of her coming into the bank?

Mrs. HELIES. No, I don't.

Mr. SIMON. Have you ever seen the woman?

Mrs. HELIES. Yes, I have.

Mr. SIMON. Where?

Mrs. HELIES. Well, she was an architect for our company, for my husband, for quite some time.

The CHAIRMAN. She was a what?

Mrs. HELIES. An architect.

The CHAIRMAN. She was an architect for whom?

Mrs. HELIES. For my husband.

The CHAIRMAN. She was an architect for your husband?

Mrs. HELIES. Yes.

Mr. SIMON. When did you marry Mr. Helies?

Mrs. HELIES. In March of 1953.

Mr. SIMON. When did she work for him?

Mr. HELIES. Prior to that.

Mr. SIMON. Before that?

Mrs. HELIES. Yes; for Donnegan Modernization Co.

Mr. SIMON. Do you recall Mrs. Bennett coming into your bank for a loan?

Mrs. HELIES. I believe she did. I believe she applied on the second floor.

Mr. SIMON. Did she talk to you when she came in for that loan?

Mrs. HELIES. No.

Mr. SIMON. Did you approve her credit?

Mrs. HELIES. Yes; I did.

Mr. SIMON. Did you know that she was not going to use that money for a home improvement?

Mrs. HELIES. No; I did not.

Mr. SIMON. Did you know that a third of the loan was going to go to Chisik for a commission?

Mrs. HELIES. No; I did not, sir.

Mr. SIMON. Did Chisik ever talk to you about that loan?

Mrs. HELIES. He did not.

Mr. SIMON. Did you ever pass on the credit of any loans for Morton Schuster?

Mrs. HELIES. No; I have not.

Mr. SIMON. What is the business of your husband?

Mrs. HELIES. Building.

Mr. SIMON. What building?

Mrs. HELIES. Building modernization.

Mr. SIMON. What is the name of his company?

Mrs. HELIES. Heydon.

Mr. SIMON. H-a-y—

Mrs. HELIES. H-e-y-d-o-n.

Mr. SIMON. Heydon what?

Mrs. HELIES. Building & Supply Co.

Mr. SIMON. How long has he been in that business?

Mrs. HELIES. Since July or August of 1953.

Mr. SIMON. What did he do before that?

Mrs. HELIES. He was with Donnegan Modernization.

Mr. SIMON. How long was he there?

Mrs. HELIES. I don't remember, sir.

Mr. SIMON. Sorry?

Mrs. HELIES. I don't remember.

Mr. SIMON. How long have you known him?

Mrs. HELIES. Since November of 1952.

Mr. SIMON. Was he with Donnegan Modernization then?

Mrs. HELIES. He was.

Mr. SIMON. Both these companies specialize in home repairs?

Mrs. HELIES. Yes.

Mr. SIMON. Do they sell siding?

Mrs. HELIES. No.

Mr. SIMON. What do they sell?

Mrs. HELIES. Additions and things like that, just general repairs.

Mr. SIMON. Do they finance their work under FHA?

Mrs. HELIES. Yes; they do.

Mr. SIMON. Have you passed on the credit at the bank for paper brought in by your husband?

Mrs. HELIES. I have not.

Mr. SIMON. You didn't.

Mrs. HELIES. No; he did not turn any in at the bank because I was working there.

Mr. SIMON. Did your bank handle his paper?

Mrs. HELIES. They handled Donnegan Modernization Co.

Mr. SIMON. How about Heydon Building & Supply?

Mrs. HELIES. No.

Mr. SIMON. The bank didn't handle it?

Mrs. HELIES. No.

The CHAIRMAN. What bank did handle it?

Mrs. HELIES. Bank of Commerce.

The CHAIRMAN. The Bank of Commerce handled all the paper for the Heydon—

Mrs. HELIES. Heydon Building & Supply.

The CHAIRMAN. And the national bank that you worked for did not handle any of his paper?

Mrs. HELIES. No; he went into business after I left the bank.

The CHAIRMAN. He went into business after you left the bank?

Mrs. HELIES. I believe so.

The CHAIRMAN. The Bank of Commerce handled the business?

Mrs. HELIES. Yes.

Mr. SIMON. Do you know an Irving Swaab?

Mrs. HELIES. I did.

Mr. SIMON. Was he in the Pioneer Construction Co.?

Mrs. HELIES. Not that I know of.

Mr. SIMON. Have you ever heard of the Pioneer Construction Co.?

Mrs. HELIES. I don't know whether I have or not. It sounds familiar.

Mr. SIMON. Do you know the name of Irving Swaab's company?

Mrs. HELIES. No; I didn't know that he was in business.

Mr. SIMON. You didn't know he was in business?

Mrs. HELIES. Not under any name.

Mr. SIMON. What did you think he did?

Mrs. HELIES. I knew he was doing business with the Firestone Construction Co. or working there.

Mr. SIMON. That was a home modernization?

Mrs. HELIES. Yes.

Mr. SIMON. Did your bank handle any paper for them?

Mrs. HELIES. For Firestone; yes.

Mr. SIMON. How about Pioneer?

Mrs. HELIES. I don't know about them.

Mr. SIMON. Firestone is the company that Gerald Swaab worked for, too; didn't he?

Mrs. HELIES. Firestone?

Mr. SIMON. Yes.

Mrs. HELIES. I couldn't say whether Gerald worked there or not.

Mr. SIMON. What about Morton Schuster? What business was he in?

Mrs. HELIES. I don't know what business he was in unless he was in the construction business, siding.

Mr. SIMON. Was he in the home-modernization business, too?

Mrs. HELIES. Not to my knowledge, he wasn't.

Mr. SIMON. Do you know what business he is in?

Mrs. HELIES. No, I don't.

Mr. SIMON. Weren't Irving Swaab and Morton Schuster the people who stood up for you at your wedding?

Mrs. HELIES. Yes.

Mr. SIMON. You don't even know what business they are in?

Mrs. HELIES. I can honestly say no. I thought Mr. Schuster was in the scrap metal business.

Mr. SIMON. Do you know whether either of them had a criminal record?

Mrs. HELIES. No; I don't.

Mr. SIMON. Was there a fight in your house not long ago over some modernization problems? Did somebody get beat up in your house?

Mrs. HELIES. Not to my knowledge, no. Someone came to speak to me about it, but there was no fight.

The CHAIRMAN. There was no fight?

Mrs. HELIES. There was no fight.

The CHAIRMAN. What did happen?

Mrs. HELIES. Just conversation, that is all.

The CHAIRMAN. What was the conversation about?

Mrs. HELIES. The person who came into the house, this Mr. Donnegan, was telling me about my husband's past, and so on and so forth, and he was very angry because I would not approve 2 or 3 deals at the bank for Donnegan.

The CHAIRMAN. He was angry at you because you wouldn't approve 2 or 3 deals for him?

Mrs. HELIES. Yes. Shortly after I left the bank my husband went into business for himself. I guess he didn't like that.

The CHAIRMAN. Was he beat up by somebody in your house?

Mrs. HELIES. Not to my knowledge at all. There was no fight or anything else.

The CHAIRMAN. Did you give the police department in Detroit a statement that somebody, or that he, left your house with a broken jaw and bleeding cuts?

Mrs. HELIES. I did not.

The CHAIRMAN. You did not give such a statement to the police department?

Mrs. HELIES. No, sir. I signed no broken jaw or bleeding cuts.

Mr. SIMON. You did not give such a statement to the police department?

Mrs. HELIES. Not to my knowledge.

Mr. SIMON. Who was the other man there?

Mrs. HELIES. I don't know.

Mr. SIMON. Was there another man?

Mrs. HELIES. Another man came to see Mr. Donnegan. In fact, he came in with him.

Mr. SIMON. You don't know who he was?

Mrs. HELIES. No.

Mr. SIMON. Never saw him before?

Mrs. HELIES. Yes.

Mr. SIMON. You are absolutely certain they came in together?

Mrs. HELIES. Two or three minutes.

Mr. SIMON. That wouldn't be together, would it?

Mrs. HELIES. Just about.

Mr. SIMON. Did Donnegan know the second man?

Mrs. HELIES. Apparently so; he called him by his first name.

Mr. SIMON. Did you know him?

Mrs. HELIES. No.

Mr. SIMON. Didn't they have a fight there?

Mrs. HELIES. Not to my knowledge. They had a few words, but no fight. I am sure if they had a fight someone else would have heard it. We were living upstairs.

Mr. SIMON. You heard it, didn't you?

Mrs. HELIES. Yes.

Mr. SIMON. You say unequivocally there was no light?

Mrs. HELIES. That is right.

Mr. SIMON. You say Donnegan knew the other man?

Mrs. HELIES. He seemed to.

Mr. SIMON. You don't know who he was?

Mrs. HELIES. No; I don't.

Mr. SIMON. After you were married, didn't you move into the house or the apartment of Morton Schuster?

Mrs. HELIES. We did.

Mr. SIMON. And you still don't know what business he was in?

Mrs. HELIES. No. I told you I think he was in the scrap-iron business. We had been to his home 2 or 3 times before we even moved in there.

Mr. SIMON. Do you know Jack Chisik?

Mrs. HELIES. No; I did not.

Mr. SIMON. Never met him?

Mrs. HELIES. I have never met the man.

Mr. SIMON. Don't you know who he is?

Mrs. HELIES. No.

Mr. SIMON. I may pronounce the name wrong, but it is spelled C-h-i-s-i-k.

Mrs. HELIES. Yes; I do.

Mr. SIMON. You know him?

Mrs. HELIES. Yes.

Mr. SIMON. What business is he in?

Mrs. HELIES. As far as I know, home modernization.

Mr. SIMON. What is the name of his company?

Mrs. HELIES. I don't know.

Mr. SIMON. Did you take any paper from him when you were at the bank?

Mrs. HELIES. Not to my knowledge, I did not.

Mr. SIMON. You had nothing to do with his business?

Mrs. HELIES. No.

Mr. SIMON. You just knew all these people but you didn't do any business with them at the bank?

Mrs. HELIES. That is right. Not to my knowledge, I did not.

Mr. SIMON. You knew them socially?

Mrs. HELIES. Not socially, just through the bank, paper they had turned in, or come in to see about something.

Mr. SIMON. I thought you said a minute ago you didn't take any paper at the bank?

Mrs. HELIES. I said as far as I know, we didn't take any of their paper.

Mr. SIMON. If you didn't know them socially, and didn't do any business with them, how did you happen to know them?

Mrs. HELIES. We bought windows, this Morris Chisik was in the jalousie window business. We bought windows from the company.

Mr. SIMON. Who bought windows?

Mrs. HELIES. My husband.

Mr. SIMON. For your house or his business?

Mrs. HELIES. His business, jalousie windows.

Mr. SIMON. When did you leave the employ of the bank?

Mrs. HELIES. July of 1953.

Mr. SIMON. Why did you leave the employ of the bank?

Mrs. HELIES. I was pregnant.

Mr. SIMON. Is that the only reason?

Mrs. HELIES. Yes. I wanted to go in business with my husband.

Mr. SIMON. That was the only reason?

Mrs. HELIES. That is right.

Mr. SIMON. Is that right?

Mrs. HELIES. That is right.

Mr. SIMON. The bank didn't indicate they wanted you to leave?

Mrs. HELIES. No; not to my knowledge they didn't.

Mr. SIMON. Were they unhappy when you left?

Mrs. HELIES. I don't believe so.

The CHAIRMAN. Thank you very much. You may remain under subpena. We may want you later, too, if you please.

The CHAIRMAN. Our next witness will be Mr. Chester C. Murszewski. Is he present?

Mr. MURSZEWski. Present.

The CHAIRMAN. Will you come forward, please. Will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF CHESTER C. MURSZEWski, BUFFALO, N. Y.

Mr. MURSZEWski. I do, sir.

The CHAIRMAN. Thank you, sir.

Please be seated and give your full name and address.

Mr. MURSZEWski. My name is Chester C. Murszewski. Live at 54 Rother Avenue, Buffalo, N. Y.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Do you own your own home at that address?

Mr. MURSZEWski. Yes, sir.

Mr. SIMON. Did you have some people sell you a modernization job recently?

Mr. MURSZEWski. Yes, sir.

Mr. SIMON. When was that?

Mr. MURSZEWski. January 29, 1954.

Mr. SIMON. Will you tell us what happened?

Mr. MURSZEWski. Well, I work at the American Brass Co., and as I came from work my wife called me up and told me that a salesman will come from this company here and talk to me about putting a siding on my home. About 7 o'clock in the evening the gentleman did arrive and they told me that they would like my home to be a model home, have a model home.

The CHAIRMAN. A show home?

Mr. MURSZEWski. Yes; with the siding.

The CHAIRMAN. This was siding?

Mr. MURSZEWski. Siding, sir.

The CHAIRMAN. What was the name of the siding?

Mr. MURSZEWski. Asbestos siding.

Mr. SIMON. Do you know the name of the company?

Mr. MURSZEWski. Yes, sir.

Mr. SIMON. What was the name?

Mr. MURSZEWski. Perma-Face Co.

Mr. SIMON. Perma-Face Co.?

Mr. MURSZEWski. Yes, sir.

Mr. SIMON. What was the name of the salesman?

Mr. MURSZEWski. Mr. Gusky.

Mr. SIMON. Do you know how to spell that?

Mr. MURSZEWski. Yes, sir; I have it. G-u-s-k-y.

The CHAIRMAN. Is that a copy of the contract?

Mr. MURSZEWski. Yes, sir.

The CHAIRMAN. May we have it, please?

Mr. SIMON. What did he tell you when he came to see you?

Mr. MURSZEWski. He told me he was looking for a home around my neighborhood to put up this siding. They were competing against Johns-Manville Co. and they wanted a home to be a model home for the product. Mr. Gusky told me—I had offers from someone else to put up siding for 5 years I owned that home, but I never put it up.

Mr. Gusky sold me on the idea that I would be more than paid for by taking that, you know, putting up the siding.

Mr. SIMON. You would be more than paid for by the commissions you would get on the sales of other homes?

Mr. MURSZEWski. Yes, sir.

Mr. SIMON. How were you going to get paid?

Mr. MURSZEWski. Well, for every time the product was supposed to be shown, Mr.—well, the company was supposed to drop a piece of paper in my mail box, to show that someone did arrive. By that I was supposed to be paid \$12.50, to show——

Mr. SIMON. \$12.50 for everybody they showed your house to?

Mr. MURSZEWski. Yes, sir.

Mr. SIMON. Even if they didn't buy anything?

Mr. MURSZEWski. That is right. I was supposed to receive a 5-percent commission if I brought someone, and looked at that building, and they took that place and recommended me to one of the other companies, salesmen, etc., I would receive 5 percent and I also have that copy here.

Mr. SIMON. Did they give you that in writing?

Mr. MURSZEWski. There are some words in writing here.

The CHAIRMAN. May we see it, please?

Mr. SIMON. They put the siding on your house?

Mr. MURSZEWski. Yes, sir; here is the home where the siding was put on. I am trying to sell it now because it is a mess of a job.

The CHAIRMAN. A mess of a job?

Mr. MURSZEWski. That is right.

Mr. SIMON. What is the matter with it?

Mr. MURSZEWski. The nails are coming out, the siding is cracked, and my paper ran an article in the paper that homeowners are being swindled through, or by putting up siding, salesmen coming around with the idea of a model home. I appealed to my better business bureau at home. They talked to Mr. Warring, who is the president of the company in Buffalo, and I don't know the statement, but the better business bureau did call me up one day and told me that they can't do too much because I signed a completion certificate.

Mr. SIMON. When did you sign the completion slip?

Mr. MURSZEWski. The job wasn't finished at that time. Mr. Higgins, who was general manager there, told me and assured me the job

would be finished. He complained and Mr. Warring complained that I always put my nose into how the siding should have been put on, and as you read that contract, that contract was never lived up to, the way they were supposed to applicate that thing.

The CHAIRMAN. What did you pay for this job? What was the contract price?

Mr. MURSZEWski. Well, the contract price on the siding alone was \$1,285.

The CHAIRMAN. \$1,285?

Mr. MURSZEWski. Yes, sir.

The CHAIRMAN. It doesn't show in the contract.

Mr. MURSZEWski. Yes, sir. It shows. With the roof, it is \$1,585. They put on a roof addition on there.

The CHAIRMAN. The total then was \$1,585?

Mr. MURSZEWski. That is right. That was \$300 for the roof.

The CHAIRMAN. Did they put on the roof?

Mr. MURSZEWski. Yes; because the house needed a roofing job and I told them, "If you are going to have this as a model home, you might as well put the roofing on." We agreed to that.

The CHAIRMAN. Would you have purchased this job if they had not promised you \$12.50 on each person to whom they sold a house?

Mr. MURSZEWski. That is right.

The CHAIRMAN. Have they paid you any \$12.50?

Mr. MURSZEWski. No, sir. My brother-in-law had siding put on his home by the same company and I never received a 5-percent commission as yet.

Mr. Gusky came one Sunday morning, just before I went to church, and he says, "I want that bottom piece, that white paper I gave you on the contract, the profit-sharing agreement."

Mr. SIMON. That is where he wrote in "We agree to pay \$12.50 for," is that involving—

Mr. MURSZEWski. Individual showing.

Mr. SIMON (reading):

Individual use of Mr. and Mrs. Murszewski's exterior of these buildings, the year 1954, to use when working this section of Buffalo.

Mr. MURSZEWski. That is right.

Mr. SIMON. He said he wanted that back?

Mr. MURSZEWski. Yes, sir. He wanted that back. He promised me if I gave him that piece of paper, he would take the \$300 off, because I made an agreement like that. If I paid cash \$300, my payments monthly would be lower through FHA loan and I didn't want that roof to be put on until July. They put it on in February.

Well, Mr. Waring called me up one time and threatened me, and he says—

Mr. SIMON. Threatened you?

Mr. MURSZEWski. Yes.

Mr. SIMON. What did he say to you?

Mr. MURSZEWski. He says, "If you take me into court, I will remember what you signed on the yellow sheet, that you are fined for \$5,000, and imprisonment."

Mr. SIMON. What did you sign on the yellow sheet?

Mr. MURSZEWski. That is written on the bottom. I didn't see that until I read that contract way down.

The CHAIRMAN. What bank handled the paper?

Mr. MURSZEWski. Manufacturers Traders Trust Co.

The CHAIRMAN. Manufacturers and Traders Trust Co. in Buffalo?

Mr. MURSZEWski. Yes, sir.

The CHAIRMAN. Are you paying them regularly?

Mr. MURSZEWski. Yes, sir; monthly installments.

The CHAIRMAN. You are making the payments?

Mr. MURSZEWski. Yes, sir.

Mr. SIMON. Is what you are saying he told you it was illegal for you to agree to get these commissions?

Mr. MURSZEWski. No, sir. He told me that if I ever pulled him into court that he will always threaten me with that imprisonment on that yellow sheet.

Mr. SIMON. Why could he do that?

Mr. MURSZEWski. I don't know. I don't know, sir. I never told him I would take him into court. I never did tell him that. I did see a lawyer but he promised me that I couldn't do anything with that; if the company wants to give me a commission on that model home they can do so. If not, they didn't have to. That is what he told me. They never did. I appealed to my better business bureau after that, and that was all.

Mr. SIMON. Thank you very much.

The CHAIRMAN. Thank you. We will excuse you.

Mr. MURSZEWski. Is that all, sir?

The CHAIRMAN. Yes.

Our next witness will be Mr. Leonard Pichan. Will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

#### TESTIMONY OF LEONARD L. PICHAN, NEW BOSTON, MICH.

Mr. PICHAN. I do.

The CHAIRMAN. Give your full name and address to the reporter, please.

Mr. PICHAN. Leonard Louis Pichan, 26966 Ellis Street, New Boston, Mich.

The CHAIRMAN. Boston, Mich.?

Mr. PICHAN. New Boston, Mich.

The CHAIRMAN. You may proceed, Mr. Simon.

Mr. SIMON. Mr. Pichan, do you own your own home at that address?

Mr. PICHAN. Yes; I do.

Mr. SIMON. Did you have a home modernization job sold you recently?

Mr. PICHAN. About 2½ years ago, I believe it was.

Mr. SIMON. That would be 1952?

Mr. PICHAN. I believe it is about that.

Mr. SIMON. Do you recall the date?

Mr. PICHAN. No, I don't.

Mr. SIMON. Do you recall what time of the year it was?

Mr. PICHAN. It was—it must have been summertime. It was warm at the time.

Mr. SIMON. What was the name of the company that sold it to you?

Mr. PICHAN. Prime Construction Co.

Mr. SIMON. What work were they to do for you?

Mr. PICHAN. Side my house.

Mr. SIMON. What kind of siding?

Mr. PICHAN. An imitation brick siding.

Mr. SIMON. Will you tell us what the salesman told you when he came out to sell the job?

Mr. PICHAN. Well, he used this model-home pitch you have been talking about here. They would like a home in our area there to put this siding on and then they would use it for model home to sell to other people. For every home that was sold off of ours, we were to receive \$50.

Mr. SIMON. You were going to get \$50 for every model home he sold using yours as a model?

Mr. PICHAN. Yes.

Mr. SIMON. Did he tell you whether that would pay for the job?

Mr. PICHAN. Yes. He said eventually the job would pay for itself.

Mr. SIMON. Wouldn't cost you anything?

Mr. PICHAN. That is right.

Mr. SIMON. Any other conversation?

Mr. PICHAN. Along with that my wife was supposed to get cooking ware, my kids dolls, and that kind of line.

The CHAIRMAN. Where was this company located?

Mr. PICHAN. Somewhere here in Detroit. I don't know.

Mr. SIMON. Do you have a copy of your contract?

Mr. PICHAN. No.

Mr. SIMON. Did they finally do the work?

Mr. PICHAN. Yes.

Mr. SIMON. Did you get any of the commissions?

Mr. PICHAN. No. In the meantime before the job was completed, I went to the Better Business Bureau and talked to Mr. Carrico and he called in Mr. Rosenbaum, the owner of the company, and the two salesmen that came out.

The CHAIRMAN. The owner of the company was Mr. Rosenbaum?

Mr. PICHAN. Yes.

Mr. SIMON. What was the name of the company?

Mr. PICHAN. Prime Construction.

The CHAIRMAN. We have Mr. Rosenbaum coming in later. What bank handled it for you?

Mr. PICHAN. Allied Building Credits.

The CHAIRMAN. Do they have an office in Detroit?

Mr. PICHAN. Yes.

Mr. SIMON. How did you happen to go to the Better Business Bureau?

Mr. PICHAN. After I thought it over after we signed the contract and everything it didn't sound right to me. The next day the subcontractors came out.

Mr. SIMON. The very next day?

Mr. PICHAN. Yes. They put on one square of siding. I came home from work and looked at the siding and it wasn't the siding presented to me. It was an altogether different siding. In fact, the

names—it was on the contract and what was on the box by my house, the siding box, was two different names altogether. I got a little curious about it, so I started checking around different building companies to see just what this siding was worth. I found out it wasn't worth near what we were supposed to pay.

Mr. SIMON. What were you supposed to pay?

Mr. PICHAN. Well, actually it was \$890, but then there was another \$300 personal loan involved there.

Mr. SIMON. You mean he was going to give you \$300 and increase the price by that amount?

Mr. PICHAN. Yes.

Mr. SIMON. So it made the contract for \$1,190 and gave you \$300 in cash, is that right?

Mr. PICHAN. He was supposed to. I never received it.

Mr. SIMON. You never received the \$300?

The CHAIRMAN. Did you sign a contract for one thousand one hundred-and-some dollars?

Mr. PICHAN. \$1,190.

The CHAIRMAN. The \$300 was not to be for home repairs at all, but supposed to go to you?

Mr. PICHAN. It was supposed to go to me. In order to get me to sign this contract I told him I had other obligations and couldn't handle this amount. The salesman got talking around and said I could meet the obligations. I told him \$300.

The CHAIRMAN. I will say for the record we have found all through the country this sort of pattern, where they have raised the amount and then pay or offer to pay, and in some instances they have paid, but in most instances they have not.

Mr. PICHAN. This Mr. Berg, I guess is his name, Nate Berg, I found out his right name was, gave me a signed slip to that effect, that he was to receive \$300 cash.

The CHAIRMAN. But the amount of the loan was to be increased by \$300?

Mr. PICHAN. That is right.

The CHAIRMAN. The \$300 was not to be used for home repair?

Mr. PICHAN. That is right.

The CHAIRMAN. Did you know if you had taken it, it would have been a violation of the law, and you would have been subject to prosecution?

Mr. PICHAN. No, sir; I didn't.

Mr. SIMON. You never got the \$300?

Mr. PICHAN. No, sir.

Mr. SIMON. No part of it?

Mr. PICHAN. No, sir.

Mr. SIMON. You are now paying on \$1,100?

Mr. PICHAN. No, sir.

Mr. SIMON. You stopped paying?

Mr. PICHAN. No. In the meantime we went to the better business bureau, and Mr. Rosenbaum and Mr. Greenberg, the salesman, and Mr. Berg, were brought in, and I made a settlement with them there.

Mr. SIMON. What was the settlement?

Mr. PICHAN. \$270.

Mr. SIMON. For the whole job?

Mr. PICHAN. Yes, sir.

Mr. SIMON. You checked around with other contractors. What did you find that a legitimate contractor would have charged you?

Mr. PICHAN. About \$400.

The CHAIRMAN. They charged you \$1,190 for it?

Mr. PICHAN. Yes.

Mr. SIMON. \$890 was the original price?

Mr. PICHAN. Yes, sir.

Mr. SIMON. What was the quality of the work they did?

Mr. PICHAN. I was satisfied with the work.

Mr. SIMON. The work was all right?

Mr. PICHAN. Yes.

Mr. SIMON. They were going to charge you \$890 for a \$400 job?

Mr. PICHAN. Yes.

Mr. SIMON. When you went to the better business bureau they settled for \$270?

Mr. PICHAN. That is right; \$270.

Mr. SIMON. In other words, they said their cost was \$270 but they were going to charge you \$890 before you went to the better business bureau?

Mr. PICHAN. Before we went to the bureau, \$890 was the cost.

Mr. SIMON. Because this was a model cost they were going to do it at cost?

Mr. PICHAN. Yes. He told me it would cost twelve or thirteen hundred dollars, or, if they were to make a profit on it, that would be the price.

Mr. SIMON. They were going to give you this cost because it was a model home?

Mr. PICHAN. That is right.

Mr. SIMON. In addition they would pay you \$50 for every job they got through your home?

Mr. PICHAN. That is right.

Mr. SIMON. Thank you, sir.

The CHAIRMAN. Thank you very much.

Our next witness will be Mrs. Mays. Will you come forward, please? Mrs. Mays, will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

Mrs. MAYS. I do.

**TESTIMONY OF MRS. MARTHA MAYS, DETROIT, MICH., ACCOMPANIED BY LOUELLA E. PUETT, COUNSEL**

The CHAIRMAN. Please be seated. Will you give your name for the record?

Mrs. PUETT. My last name is Puett.

The CHAIRMAN. You are an attorney for this lady?

Mrs. PUETT. Yes. I was the attorney in this case.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mrs. Mays, will you give the reporter your address?

Mrs. MAYS. My name is Martha Mays, 4251 Williams Street, Detroit.

Mr. SIMON. Do you and your husband own your own home at that address?

Mrs. MAYS. Yes; we do.

Mr. SIMON. Did some man sell you a home improvement?

Mr. MAYS. Well, it was an addition.

Mr. SIMON. An addition to your house?

Mrs. MAYS. Yes.

Mr. SIMON. When was this?

Mrs. MAYS. I remember it was the 17th of March 1952.

Mr. SIMON. March 17, 1952?

Mrs. MAYS. Yes.

Mr. SIMON. Will you tell us what happened, please?

Mrs. MAYS. On that particular day, I had a cold, and these people wanted to do some work on the house. I told them I wasn't interested because my husband wasn't home. They said they would be over to talk to him. When they got there I had gone, but my husband was there so they sat and talked with him until I got back. Then they told me to come into the room. They said they didn't want everybody to know about the business because there was more people in the house and they wanted to talk to us ourselves.

Mr. SIMON. This was secret. They didn't want anybody else to know about it?

Mrs. MAYS. That is right.

Mr. SIMON. What was the name of the company?

Mrs. MAYS. Prime Construction Co.

Mr. SIMON. Do you remember the name of the salesman?

Mrs. MAYS. Lou Newman.

The CHAIRMAN. The name was Prime Construction Co.?

Mrs. MAYS. Yes, sir.

Mr. SIMON. There were other people in the house and they wanted to talk to you and your husband alone?

Mrs. MAYS. That is right. We went into the room and started talking. He told me he would put 5 rooms in the attic, which would be 2 bedrooms, living room, kitchen, and bath, so we asked how much would the job be. He says, "I will do the job. The job will be \$1,609. For you we will do it for \$1,490, with \$200 as a downpayment. I will give you this \$200." And they marked that down and said that would come off my income tax, so while he kept talking, I said "I am not ready to go into it." He said, "Mrs. Mays, it will be a lot of help to you. The upstairs will help pay for your downstairs." I said, "I know that, but I can't afford it." He said, "It won't cost you anything."

Mr. SIMON. Won't cost you anything?

Mrs. MAYS. "Won't cost you anything. In 3 months your payments start."

They finished it, and then I could rent it out, and rent out 2 months before the payments started, so they went up—no, the man told me, he says—he had the paper there to sign and he says, "This is not the contract." He said he would send the papers to Washington and have them O. K.'d and they would come back and they would be O. K.'d there.

The CHAIRMAN. Did you think you were doing business with the Federal Government?

Mrs. MAYS. I didn't know.

Mr. SIMON. Did he tell you it was an FHA loan?

Mrs. MAYS. Yes. He told me it would be paid through the FHA and so we signed the paper that evening between 5 and 6 o'clock. He

said it would be about a couple or 3 weeks before they would get started on the job. I went to work the next morning, and when I came back they had started. They had the bedroom with no windows, the bathroom, no windows, just the box. The stairway, you couldn't get up there. The materials they had worked on, they took the materials up through the windows. We kept calling trying to get them to finish and they never came back. We called up an inspector from the building engineering department.

The CHAIRMAN. From the what?

Mrs. MAYS. The engineering department from the city, an inspector, so this inspector come out, and then he went up and looked at the job and then he goes back and gives them a 72-hour notice to come and complete the job. They didn't do it, so one evening this man came in and said, "Would you do me a favor?" I said, "What is that?" He says to sign this paper for more material. I said I would. I didn't read the paper. I couldn't have read it. I am not a good reader. I signed the paper and the next 2 days, about 2 or 3 weeks, I got a book from the bank for payments.

The CHAIRMAN. What bank?

Mrs. MAYS. Industrial National Bank.

The CHAIRMAN. Industrial National Bank?

Mrs. MAYS. That is right.

Mr. SIMON. Did that paper you signed for more material turn out to be a completion slip?

Mrs. MAYS. A completion slip.

Mr. SIMON. In that it said they had completed the job and it was satisfactory?

Mrs. MAYS. That is right.

Mr. SIMON. They took that to the bank and the bank gave them the full amount?

Mrs. MAYS. That is right.

Mr. SIMON. \$1,600?

Mrs. MAYS. They gave them \$1,490.

Mr. SIMON. \$1,490?

Mrs. MAYS. That is right. After they had gotten their money they never came back to do the work.

Mr. SIMON. Never came back?

Mrs. MAYS. No.

Mr. SIMON. How much work had they done by that time?

Mrs. MAYS. It wasn't nothing. They just went back and partitioned it off, the 5 rooms they partitioned it off and 1 of the bedrooms you couldn't walk in because the walls had to be raised, new floors had to be put in. They didn't do anything. There wasn't a window. It was just blank, no window in the bedroom or bathroom and the other ones were supposed to be enlarged. They didn't bother that. They didn't raise the stairway. They didn't do anything, probably just went up and put up something and left out.

Mr. SIMON. Because you signed the completion slip they went to the bank and the bank gave them the full amount of money and the bank said you owed the money?

Mrs. MAYS. That is right. My husband went down to the bank. They sent a man out to see this job.

Mr. SIMON. What bank was this?

Mrs. MAYS. Industrial National Bank down in town, so this man came out and he says, "Mrs. Mays, as far as I am concerned the job is not worth \$300."

The CHAIRMAN. Who said that?

Mrs. MAYS. The man from the bank.

The CHAIRMAN. The man from the bank said the job wasn't worth \$300?

Mrs. MAYS. That is right.

The CHAIRMAN. They had advanced how much?

Mrs. MAYS. \$1,490.

The CHAIRMAN. Why didn't they find that out before they advanced the money?

Mrs. MAYS. I don't know. They didn't send anybody else out until we complained about the payments. I said, "I couldn't rent the place." He said, "It is quite natural you can't rent it because it is nothing but a box, there is no windows."

They told me after I called Prime, they said, "Go on and rent it." I said, "I can't rent it." They said, "If you can't put somebody in it, I will put somebody in it." I told them to do it, I wasn't. The inspector came out and said I was right, not to try to rent it. So I didn't. That was the inspector from the city. He was Inspector Jackson from the city.

Mr. SIMON. Are you paying the bank now?

Mrs. MAYS. No. We had to go into a lot of trouble.

Mr. SIMON. Where does your husband work?

Mrs. MAYS. At the Plymouth plant.

The CHAIRMAN. What is his salary?

Mrs. MAYS. He makes \$65 come-home pay. We went to the Michigan Cooperative Security and then we went to traffic court, and then we wrote the better business, so we also had—no, we took it up with FHA. I can't remember exactly how it went.

Mr. SIMON. What finally happened?

Mrs. MAYS. Well, finally, they were supposed to—we had a settlement. How did that settlement come? They were supposed to do something. I just can't—altogether I can't remember it, but we couldn't do anything until the city and everything, you know, cleared up the mess.

Mr. SIMON. Do you know whether you made a settlement with the bank?

Mrs. MAYS. No. The Prime Construction was supposed to go back and buy up that note. Wasn't that right, take that note back?

Mr. SIMON. Is that what happened?

Mrs. PUETT. I took care of it from the time that the complaint was made to the securities commission, the corporation securities commission. They made the complaint. We have it here. They found them guilty and canceled their certificate, and then I took, at about the same time, it up with the FHA. The FHA, Mr. Steffler, informed me he would take it up with the Prime Construction, which he said he did, and then the Prime Construction took up the notes. That was my demand, that they take up the notes after the certificate was canceled, or at the time, and then subsequently, Mr. Rosenbaum took the

matter up with the better business bureau and the settlement was effected and the notes were taken up previously and the settlement was effected and they permitted the work that they had done, which was a roughed-in job as she has stated, windows or doors put in, as she stated, and they permitted the material to be turned over. A settlement was reached and signed.

The CHAIRMAN. This is two cases we have had in a row of the Prime Construction Co. This case was financed by the Industrial Bank?

Mrs. MAYS. That is right.

The CHAIRMAN. The one previous to that was Allied Credit.

Mr. SIMON. Yes.

The CHAIRMAN. I wish it would be possible to get the records of Allied Credit and the bank on these two cases that we just talked about. Is this Prime Construction Co. still authorized to do business?

Mr. McCREEDY. No, sir.

The CHAIRMAN. The State of Michigan canceled them out?

Mr. McCREEDY. Yes, sir.

The CHAIRMAN. When was that?

Mr. McCREEDY. I don't have the records with me. They have applied for a new license and that license has been denied.

Mrs. PUETT. The report I have is it was October 16, 1952.

The CHAIRMAN. What was that?

Mrs. PUETT. Cancellation of their certificate.

The CHAIRMAN. What was that date again, please?

Mrs. PUETT. I wanted to find it to verify it. October 16, I am pretty sure it was.

The CHAIRMAN. Did you have a lot of complaints against this concern?

Mr. McCREEDY. I think the records will show there were three complaints, sir, on the citation hearing. I am not sure.

Mrs. PUETT. I am real sure it was October 16 that the cancellation, that I received notice of the cancellation.

The CHAIRMAN. Thank you very much, Mrs. Mays. You may go now. We will excuse you from your subpoena.

We are about to recess. I wish to state that all the witnesses that have been subpoenaed for 10 o'clock today or 2 o'clock are witnesses that have been subpoenaed that we haven't heard. We will extend the subpoenas until we can get to them this afternoon or tomorrow and those that were heard and we asked to remain will remain this afternoon and all day tomorrow unless we excuse you. Those witnesses that we did not ask to remain are excused from their subpoena and they may proceed. We will now recess until 2 o'clock.

(Whereupon, at 12:30 p. m., the committee recessed until 2 p. m. the same day.)

#### AFTERNOON SESSION

The CHAIRMAN. The committee will come to order, please.

Our first witness this afternoon will be Helen Parker Bennett. Mrs. Bennett, will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF MRS. HELEN PARKER BENNETT, HELL-BEND CO,  
DETROIT, MICH.**

Mrs. BENNETT. Yes.

The CHAIRMAN. Please be seated and give the reporter your full name and address.

Mrs. BENNETT. Helen Parker Bennett, 7484 American.

The CHAIRMAN. Mr. Counsel, you may proceed.

Mr. SIMON. Mrs. Bennett, are you the wife of Ira Bennett?

Mrs. BENNETT. I am.

Mr. SIMON. What is your occupation?

Mrs. BENNETT. At present I am unemployed.

Mr. SIMON. Have you been employed by the Hell-Bend Co.?

Mrs. BENNETT. I was a partner of the company.

Mr. SIMON. Would you talk into the microphone so we can hear you?

Mrs. BENNETT. I was a partner in the company.

Mr. SIMON. You were a partner in the company?

Mrs. BENNETT. I was.

Mr. SIMON. Who were the other partners?

Mrs. BENNETT. Wallace Helies was president, and manager, my husband, Ira, vice president, I was secretary, Doris Helies was the treasurer.

Mr. SIMON. When was the company organized?

Mrs. BENNETT. Approximately late in May of 1953.

Mr. SIMON. What was the business of the Hell-Bend Co.?

Mrs. BENNETT. We called ourselves in the building business and we did new and old work; building.

Mr. SIMON. At the time the company was organized, was Mr. Helies working for the Industrial National Bank?

Mrs. BENNETT. To the best of my knowledge. I have called her there.

Mr. SIMON. Did you have a conversation with Mr. Helies in which you told him that you needed some money?

Mrs. BENNETT. Casually we mentioned we could use a thousand dollars.

Mr. SIMON. When was that conversation?

Mrs. BENNETT. I can't be specific as to date. It may have been in May or June of 1953.

Mr. SIMON. May or June of 1953?

Mrs. BENNETT. In that interim.

Mr. SIMON. Was work done by the Hell-Bend Co. financed under FHA loans?

Mrs. BENNETT. Not that I would know. We had no knowledge of the financing of the jobs.

Mr. SIMON. Who did the financing?

Mrs. BENNETT. Mr. Helies.

The CHAIRMAN. Mr. who?

Mr. BENNETT. Mr. Helies, president of the company.

Mr. SIMON. You don't know how it was financed?

Mrs. BENNETT. We were unable to ever get books or reports of any moneys that were handled by the company.

Mr. SIMON. How much of the stock did you own?

Mrs. BENNETT. We set up the company. I don't know. I think we were all four, one-quarter in.

The CHAIRMAN. You were an officer?

Mrs. BENNETT. Yes.

The CHAIRMAN. What was your title?

Mrs. BENNETT. Secretary.

The CHAIRMAN. Your husband was vice president?

Mrs. BENNETT. Yes.

Mr. SIMON. You and your husband owned one-half of the stock?

Mrs. BENNETT. So far as we knew.

Mr. SIMON. You couldn't find out—

Mrs. BENNETT. We never could find out anything about any financing.

The CHAIRMAN. Who were the other two owners?

Mrs. BENNETT. Wallace Helies and his wife, Doris.

The CHAIRMAN. Was that the same lady that testified here this morning?

Mrs. BENNETT. I wasn't here, sir.

Mr. SIMON. In May 1953, when you had this conversation with Mr. Helies in which you casually mentioned you could use a thousand dollars, what did he say?

Mrs. BENNETT. He says, "I can get you a thousand dollars."

Mr. SIMON. What did he do to get it?

Mrs. BENNETT. Well, I don't know what he did to get it.

Mr. SIMON. Did he drive you down to the Industrial National Bank?

Mrs. BENNETT. Yes.

Mr. SIMON. What happened when you got there?

Mrs. BENNETT. I signed a receipt for a check.

Mr. SIMON. How much was the check for?

Mrs. BENNETT. When I got in the car I found out it was for \$1,500.

Mr. SIMON. Was that for an FHA title I loan?

Mrs. BENNETT. I thought it was a personal loan.

Mr. SIMON. Do you know whether it turned out to be an FHA home repair loan?

Mrs. BENNETT. I think it was.

The CHAIRMAN. You know now it was an FHA loan?

Mrs. BENNETT. Yes, on title which we had no title or claim except to be tenants.

The CHAIRMAN. At the time you were told did they say it was a personal loan?

Mrs. BENNETT. Yes.

Mr. SIMON. Did you read the papers before you signed them?

Mrs. BENNETT. No.

Mr. SIMON. Did you know you were signing an application for a loan on property which you didn't own?

Mrs. BENNETT. I would not sign such a thing.

Mr. SIMON. You didn't own the property?

Mrs. BENNETT. No.

Mr. SIMON. You didn't read the paper when you signed it?

Mrs. BENNETT. No. The signature on the application was not made in connection with the loan.

Mr. SIMON. Say that again.

Mrs. BENNETT. The signature on the application was not made so far as I knew in connection with a loan.

Mr. SIMON. What was it for?

Mrs. BENNETT. Well, I was always signing papers. I mean we would submit estimates on buildings.

Mr. SIMON. Did you think it was an estimate?

Mrs. BENNETT. I didn't pay much attention. He just slipped it under and said "Sign it," and so I did.

Mr. SIMON. Mr. Helies did this?

Mrs. BENNETT. Yes.

Mr. SIMON. After you got the check for \$1,500, did he tell you you had to give him \$500?

Mrs. BENNETT. Yes.

Mr. SIMON. What was the \$500 for?

Mrs. BENNETT. He said this was a syndicate.

Mr. SIMON. Who was the syndicate?

Mrs. BENNETT. Well, in the light of later events I think Mr. Helies was the syndicate.

Mr. SIMON. All by himself?

Mrs. BENNETT. All by himself.

Mr. SIMON. Did his wife help you get that loan at the bank?

Mrs. BENNETT. I couldn't say because there was no trouble about getting it. I went in and asked for it and got it and that was it.

Mr. SIMON. Was the check all made out when you got there?

Mrs. BENNETT. No. They made it out while I was there.

Mr. SIMON. Didn't anybody ask you any questions?

Mrs. BENNETT. None.

Mr. SIMON. None at all?

Mrs. BENNETT. Nothing.

Mr. SIMON. Who handed you the check?

Mrs. BENNETT. The girl in the cashier's cage.

Mr. SIMON. Did you sign the papers while you were there?

Mrs. BENNETT. I just signed a receipt for the check.

Mr. SIMON. That is all you signed there?

Mrs. BENNETT. Yes.

Mr. SIMON. When did you sign the application and the notes?

Mrs. BENNETT. It could have been any time.

Mr. SIMON. You don't even know when you signed them?

Mrs. BENNETT. No.

Mr. SIMON. What was the thousand dollars used for? You kept a thousand dollars?

Mrs. BENNETT. Yes.

Mr. SIMON. What did you use that for?

Mrs. BENNETT. We paid off little bills. We paid for a truck that we had.

Mr. SIMON. Paid for a truck?

Mrs. BENNETT. That we owned.

The CHAIRMAN. You didn't use the money to repair your house?

Mrs. BENNETT. It wasn't our house.

The CHAIRMAN. Oh.

Mr. SIMON. What happened——

The CHAIRMAN. This is a new one?

Mrs. BENNETT. Yes.

Mr. SIMON. What happened to the Hell-Bend Co.?

Mrs. BENNETT. We had an attorney to request a dissolution of the company, giving us the report of the books, because my credit—the management's credit was involved. To date, we have had no response from that.

Mr. SIMON. Did you offer to give back to the bank the thousand dollars plus interest?

Mrs. BENNETT. Yes.

Mr. SIMON. The bank wouldn't take it?

Mrs. BENNETT. No. They took us into court and took a \$1,500 judgment plus interest.

Mr. SIMON. How much is the judgment?

Mrs. BENNETT. Well, the judgment I imagine—it is \$1,500 plus whatever——

Mr. SIMON. About \$1,700?

Mrs. BENNETT. Something in that neighborhood.

Mr. SIMON. Have you tried to collect the \$500 from Mr. Helies?

Mrs. BENNETT. I have not because I have been scared of Mr. Helies.

The CHAIRMAN. Frightened of him?

Mrs. BENNETT. Yes. I still am.

Mr. SIMON. Why?

Mrs. BENNETT. He warned me that the syndicate would take care of me if I didn't give the \$500 and I was scared my husband would give me the business if I did so, I mean it is a matter——

Mr. SIMON. What do you mean the syndicate would take care of you, put you on a pension?

Mrs. BENNETT. Probably.

Mr. SIMON. What do you mean by that?

Mrs. BENNETT. I say I was frightened of my life.

Mr. SIMON. Do you have any idea who this syndicate is?

Mrs. BENNETT. I still think it must be Mr. Helies.

Mr. SIMON. Do you know a man named Jack Chisik?

Mrs. BENNETT. No.

Mr. SIMON. You never had any dealings with him?

Mrs. BENNETT. No.

Mr. SIMON. Do you know of any other loans that Mr. Helies got for people that were insured by the FHA but were not for repairing their homes?

Mrs. BENNETT. No, because as I say we knew nothing of the financial arrangements of the company. That is what led to our request for a dissolution.

Mr. SIMON. Do you know anything about a loan he got for a funeral home?

Mrs. BENNETT. Yes.

Mr. SIMON. Was that for repairing the building?

Mrs. BENNETT. No.

Mr. SIMON. What was that for?

Mrs. BENNETT. To build an eight-car garage.

Mr. SIMON. To build an eight-car garage?

Mrs. BENNETT. Yes.

Mr. SIMON. For the funeral home?

Mrs. BENNETT. Yes.

Mr. SIMON. Was that an FHA loan?

Mrs. BENNETT. I read a copy of a contract that was signed which said on the basis of FHA of \$2,500 they would make the downpayment to the company.

Mr. SIMON. Who was going to build the eight-car garage?

Mrs. BENNETT. We were going to build it as a company.

Mr. SIMON. That is the Hell-Bend Co.?

Mrs. BENNETT. Yes.

Mr. SIMON. And was that for the Stinson Funeral Home?

Mrs. BENNETT. Yes.

Mr. SIMON. Where is that?

Mrs. BENNETT. At the Boulevard and West Warren.

Mr. SIMON. Do you know whether the Stinson Funeral Co. got the \$2,500 on an FHA loan?

Mrs. BENNETT. As far as I know they got it.

Mr. SIMON. They did?

Mrs. BENNETT. Yes.

Mr. SIMON. But no part of that was used to repair or modernize the home?

Mrs. BENNETT. No. \$1,100 was used and then——

Mr. SIMON. \$1,100?

Mrs. BENNETT. \$1,100 was put into the garage.

Mr. SIMON. What was the other \$1,400 used for?

Mrs. BENNETT. That is what we would like to know.

Mr. SIMON. What is that?

Mrs. BENNETT. We never found that out.

Mr. SIMON. Who got the \$1,400?

Mrs. BENNETT. Mr. Helies took the \$2,500.

Mr. SIMON. The Stinson Funeral Home signed the papers?

Mrs. BENNETT. Evidently.

Mr. SIMON. Mr. Helies got the \$2,500?

Mrs. BENNETT. Yes.

The CHAIRMAN. The bank handled it?

Mrs. BENNETT. Yes.

Mr. SIMON. What bank handled it?

Mrs. BENNETT. I wasn't there; this is hearsay. It was supposed to have been Industrial Bank.

Mr. SIMON. He kept \$1,400 and put \$1,100 in the garage, is that right?

Mrs. BENNETT. Yes.

Mr. SIMON. Do you know of any other loans like that?

Mrs. BENNETT. No.

Mr. SIMON. Did you have a salesman by the name of Alman or Altman?

Mrs. BENNETT. Yes.

Mr. SIMON. What was his full name?

Mrs. BENNETT. I can't recall the first name.

Mr. SIMON. How do you spell the last name?

Mrs. BENNETT. I think it is A-l-l-m-a-n-d, perhaps.

Mr. SIMON. You don't know his first name?

Mrs. BENNETT. No.

Mr. SIMON. How long did he work for you?

Mrs. BENNETT. As I say, he was Mr. Helies' project.

Mr. SIMON. What did he do?

Mrs. BENNETT. That is what I never found out.

Mr. SIMON. You don't know what he did?

Mrs. BENNETT. No.

Mr. SIMON. Thank you.

The CHAIRMAN. That is all. Thank you very much. You might stay around, if you will, please, until a little later.

Our next witness will be Mrs. Mildred Redmond. Will you please come forward? Will you please be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

### TESTIMONY OF MRS. MILDRED REDMOND, DETROIT, MICH.

Mrs. REDMOND. I do.

The CHAIRMAN. Will you please be seated and give your name and address to the reporter for the record, please?

Mrs. REDMOND. Mildred Redmond.

The CHAIRMAN. Your address, please?

Mrs. REDMOND. 1819 South Ethel.

Mr. SIMON. 1891—

Mrs. REDMOND. South Ethel.

Mr. SIMON. Could you get a little closer to the microphone so we can hear you?

Mrs. REDMOND. 1891 South Ethel.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mrs. Redmond, in April or May of 1953, were you married?

Mrs. REDMOND. Yes.

Mr. SIMON. Did you know a Mrs. Ruth Stokes?

Mrs. REDMOND. Yes.

Mr. SIMON. Did she tell you that she could get you some money if you needed it?

Mrs. REDMOND. Yes.

Mr. SIMON. And at that time you were about to separate from your husband, were you?

Mrs. REDMOND. Yes.

Mr. SIMON. And what was the arrangement that you made with your husband that required some money?

Mrs. REDMOND. He was supposed to have given me \$2,000.

Mr. SIMON. He was supposed to give you \$2,000?

Mrs. REDMOND. Yes.

Mr. SIMON. You were going to give him the furniture, is that right?

Mrs. REDMOND. Yes.

Mr. SIMON. Did he have the \$2,000?

Mrs. REDMOND. No.

Mr. SIMON. Did you and he then go to Mrs. Stokes?

Mrs. REDMOND. Yes, after she came to us.

Mr. SIMON. She came to you first?

Mrs. REDMOND. Yes.

Mr. SIMON. When did she come to you?

Mrs. REDMOND. Some time before July of 1953.

Mr. SIMON. Before July of 1953?

Mrs. REDMOND. Yes.

Mr. SIMON. What did she tell you?

Mrs. REDMOND. If we ever needed any money she could get it.

The CHAIRMAN. If you ever needed any money, she could get it for you?

Mrs. REDMOND. Yes.

Mr. SIMON. Did you go to see her when you wanted this \$2,000?

Mrs. REDMOND. Yes.

Mr. SIMON. What did you tell her?

Mrs. REDMOND. It was some time in the latter part of July when we went to see her.

Mr. SIMON. What did you tell her?

Mrs. REDMOND. I didn't tell her anything at the time. My husband told her he needed some money.

Mr. SIMON. Were you there?

Mrs. REDMOND. Yes.

Mr. SIMON. What did he tell her?

Mrs. REDMOND. He told her he wanted to borrow some money.

Mr. SIMON. Did he tell her what he wanted to borrow it for?

Mrs. REDMOND. Yes.

Mr. SIMON. What did he tell her?

Mrs. REDMOND. I can't remember the exact words, but it was to pay off his wife.

Mr. SIMON. He told her it was to pay you off for a divorce?

Mrs. REDMOND. Yes.

The CHAIRMAN. Alimony or something like that?

Mrs. REDMOND. Yes.

Mr. SIMON. Did you make out some papers then?

Mrs. REDMOND. Yes.

Mr. SIMON. Were they FHA title I loans?

Mrs. REDMOND. They were FHA papers.

Mr. SIMON. Did you know what FHA stood for?

Mrs. REDMOND. Yes.

Mr. SIMON. Federal Housing Administration—did you know that?

Mrs. REDMOND. Yes.

Mr. SIMON. Was any part of this money going to be used to repair a house?

Mrs. REDMOND. Yes, part of it was supposed to have been.

Mr. SIMON. How much was going to be used to repair the house?

Mrs. REDMOND. I don't know exactly, I mean how it was going to be arranged.

Mr. SIMON. I thought you said a minute ago that \$2,000 was going to be for you so he could get a divorce.

Mrs. REDMOND. He wasn't going to give me all of it at the same time.

Mr. SIMON. How much was he going to give you?

Mrs. REDMOND. He was supposed to have given me \$1,700.

The CHAIRMAN. Didn't he give it to you?

Mrs. REDMOND. No.

Mr. SIMON. When you made out these papers, you and Mrs. Stokes went to a bank, is that right?

Mrs. REDMOND. No. These papers were made out at her home.

Mr. SIMON. After they were made out did she take you to the bank?

Mrs. REDMOND. If I can remember; yes.

Mr. SIMON. Do you remember if first she took you to the National Bank of Detroit?

Mrs. REDMOND. Yes.

Mr. SIMON. Did they refuse the loan?

Mrs. REDMOND. Yes.

Mr. SIMON. Then did she make out a second set of papers?

Mrs. REDMOND. Yes.

Mr. SIMON. And was that about a day or two later?

Mrs. REDMOND. I think it was a day later.

Mr. SIMON. A day later?

Mrs. REDMOND. Yes.

Mr. SIMON. At that time did she take you to the Industrial National Bank?

Mrs. REDMOND. Yes.

Mr. SIMON. Did you get the money there?

Mrs. REDMOND. Made out the papers.

Mr. SIMON. Made out the papers and did you get the money?

Mrs. REDMOND. Yes.

Mr. SIMON. Two thousand dollars?

Mrs. REDMOND. No.

Mr. SIMON. How much did you get?

Mrs. REDMOND. \$1,200.

Mr. SIMON. \$1,200?

Mrs. REDMOND. Yes.

Mr. SIMON. Is that all you got?

Mrs. REDMOND. Yes.

Mr. SIMON. And what was that money used for?

Mrs. REDMOND. Part of it was given to me and part of it, well, a very small part was used there in the house.

Mr. SIMON. How much was used in the house?

Mrs. REDMOND. I don't know. I imagine about \$550.

Mr. SIMON. What was the \$550 used for?

Mrs. REDMOND. He painted the house.

Mr. SIMON. He painted the house?

Mrs. REDMOND. Yes, decorated.

Mr. SIMON. How much did you get?

Mrs. REDMOND. The balance.

Mr. SIMON. About \$650?

Mrs. REDMOND. That is right.

Mr. SIMON. What did you do with that money?

Mrs. REDMOND. Part of it was loaned out.

Mr. SIMON. You loaned it out?

Mrs. REDMOND. Yes.

Mr. SIMON. Who did you loan it to?

Mrs. REDMOND. My mother.

Mr. SIMON. How is that?

Mrs. REDMOND. My mother.

Mr. SIMON. No part of that went to repair the house?

Mrs. REDMOND. No; not the balance.

Mr. SIMON. Did Mrs. Stokes ask you for \$200 for her services in procuring the loan?

Mrs. REDMOND. Yes.

Mr. SIMON. Did you pay that to her?

Mrs. REDMOND. Yes. She held the money out.

Mr. SIMON. She held the money out?

Mrs. REDMOND. Yes.

The CHAIRMAN. Didn't take any chances?

Mr. SIMON. Did you get a \$1,000 or was it the \$1,200 that you got after she took her \$200?

Mrs. REDMOND. It was a thousand after she took her \$200 out.

Mr. SIMON. And you say your husband built a fence around the house; is that right?

Mrs. REDMOND. That is how we made out the application.

Mr. SIMON. The application said it was for a fence around the house?

Mrs. REDMOND. Yes.

Mr. SIMON. Did he build a fence around the house?

Mrs. REDMOND. No; not as yet.

Mr. SIMON. Not yet?

Mrs. REDMOND. No.

Mr. SIMON. This was in the summer of 1953?

Mrs. REDMOND. That is right.

Mr. SIMON. When do you figure he is going to build the fence?

Mrs. REDMOND. You will have to ask him.

Mr. SIMON. How is that?

Mrs. REDMOND. You will have to ask him that.

Mr. SIMON. Now, did Mrs. Stokes drive you to a business concern with the name of Universal Jalousies?

Mrs. REDMOND. Yes.

Mr. SIMON. And did she introduce you to a man by the name of Jack?

Mrs. REDMOND. No.

Mr. SIMON. Was there a man by the name of Jack there?

Mrs. REDMOND. I don't think I heard that name at all.

Mr. SIMON. Did a man there cash the check for you?

Mrs. REDMOND. I don't know who cashed the check. I know I was carrying it there. I sat out in front.

Mr. SIMON. What do you mean by "carried" there?

Mrs. REDMOND. In their car.

Mr. SIMON. She drove you there?

Mrs. REDMOND. Yes.

Mr. SIMON. She went in and cashed the check?

Mrs. REDMOND. She went in the office. I didn't see the check any more.

Mr. SIMON. She brought you out the thousand dollars?

Mrs. REDMOND. Yes.

Mr. SIMON. You don't know who got the other \$200?

Mrs. REDMOND. No.

Mr. SIMON. Did you deposit this thousand dollars in a separate bank account?

Mrs. REDMOND. A little later.

Mr. SIMON. A little later?

Mrs. REDMOND. Yes.

Mr. SIMON. And you used part of it to visit your mother?

Mrs. REDMOND. Yes.

Mr. SIMON. Where does your mother live?

Mrs. REDMOND. Tennessee.

Mr. SIMON. You used part of this money to take a trip to Tennessee?

Mrs. REDMOND. Yes.

Mr. SIMON. Did you give your mother a \$250 Christmas present?

Mrs. REDMOND. No.

Mr. SIMON. What was that \$250?

Mrs. REDMOND. I loaned it to her.

Mr. SIMON. It just happened to be at Christmastime?

Mrs. REDMOND. No. She was buying a home and it was for a payment.

Mr. SIMON. Now, later, you went back to your husband, didn't you?

Mrs. REDMOND. Yes. We are considering a reconciliation.

Mr. SIMON. Didn't you use about \$450 of the loan to pay off some current household bills?

Mrs. REDMOND. That is right.

Mr. SIMON. When you said that about \$450 was used on the house, you meant for household bills; is that right?

Mrs. REDMOND. No. I included, when I said about \$550, I included that, too.

Mr. SIMON. You included what?

Mrs. REDMOND. I included the balance of the money that was left out of the thousand dollars.

Mr. SIMON. But of that \$550 that you spent around the house, how much of that was spent for repairing the house and how much was spent for other household bills?

Mrs. REDMOND. I imagine about \$200 or \$250 was spent for the decoration.

Mr. SIMON. For decorating the house?

Mrs. REDMOND. Yes.

Mr. SIMON. The rest of it was spent for other household bills?

Mrs. REDMOND. Yes.

Mr. SIMON. So, out of the \$1,200, only about \$250 actually was spent on the house; is that right?

Mrs. REDMOND. I think so.

Mr. SIMON. Now, do you have any relatives that have made similar loans through Mrs. Stokes?

Mrs. REDMOND. Yes.

Mr. SIMON. Is that your sister and her husband, Mrs. and Mr. Reuben Davidson?

Mrs. REDMOND. Yes.

Mr. SIMON. Did they make a title I loan through Mrs. Stokes?

Mrs. REDMOND. Yes; they made a loan.

Mr. SIMON. They made an FHA loan?

Mrs. REDMOND. I think it was FHA.

Mr. SIMON. How much did they get?

Mrs. REDMOND. I don't know.

Mr. SIMON. What did they use the money for?

Mrs. REDMOND. It was to buy a home.

Mr. SIMON. To buy a home, not to repair one?

Mrs. REDMOND. No?

Mr. SIMON. How much did they pay Mrs. Stokes?

Mrs. REDMOND. I don't know.

Mr. SIMON. Did you tell this committee that they paid her \$300?

Mrs. REDMOND. I told him I thought so, but I didn't know for sure.

Mr. SIMON. Where did you get the information that they paid her \$300?

Mrs. REDMOND. Just through talk, you know.

Mr. SIMON. Who told you that?

Mrs. REDMOND. She didn't tell me.

Mr. SIMON. Where did you get the information?

Mrs. REDMOND. Well, it was just through talk. I don't remember.

Mr. SIMON. Talk with whom?

Mrs. REDMOND. I don't know. Someone I knew and someone that knew them.

Mr. SIMON. You don't know who it was?

Mrs. REDMOND. They didn't tell me directly.

Mr. SIMON. You don't know who it was that told you?

Mrs. REDMOND. I don't remember exactly. It was just the talk.

Mr. SIMON. Do you know anybody else who made loans through Mrs. Stokes?

Mrs. REDMOND. No; I don't.

Mr. SIMON. Thank you very much.

Did you have any doubt, Mrs. Redmond, as to whether this was a legal transaction?

Mrs. REDMOND. Yes.

Mr. SIMON. Did you go to a lawyer?

Mrs. REDMOND. Yes, I did.

Mr. SIMON. What did he tell you?

Mrs. REDMOND. Well, just before the money was borrowed—I didn't know it was going to be an FHA loan. I thought it was going to be a personal loan and I thought it would be perfectly legitimate, legal, but I wasn't sure, so then I went to my lawyer to get advice.

Mr. SIMON. Did you tell the lawyer it was an FHA loan?

Mrs. REDMOND. Yes.

Mr. SIMON. Did he tell you it was all right to make an FHA loan for alimony?

Mrs. REDMOND. Yes, he did, because I wouldn't go through with the procedure until I got his, you know, O. K. on it.

Mr. SIMON. What is the name of the lawyer?

Mrs. REDMOND. Willis F. Ward.

Mr. SIMON. Where is his office?

Mrs. REDMOND. He is located in the Lawyers Building, Cadillac Square.

Mr. SIMON. He told you you could make an FHA loan for alimony?

Mrs. REDMOND. He surely did.

Mr. SIMON. When was this?

Mrs. REDMOND. That was in July 1953.

The CHAIRMAN. Thank you very much. We appreciate your testimony.

Our next witness will be Mr. John D. Redmond. Mr. Redmond, will you please come forward? Mr. Redmond, will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

#### TESTIMONY OF JOHN D. REDMOND, DETROIT, MICH.

Mr. REDMOND. I do.

The CHAIRMAN. Please be seated and give your full name and address to the reporter.

Mr. REDMOND. John D. Redmond.

Mr. SIMON. Your address, Mr. Redmond?

Mr. REDMOND. 1891 South Ethel.

Mr. SIMON. You are the husband, or you were the husband of Mrs. Mildred Redmond?

Mr. REDMOND. I am.

Mr. SIMON. Did you and she make an FHA title I in July 1953?

Mr. REDMOND. We did.

Mr. SIMON. What was the amount of the loan? Was it \$1,200?

Mr. REDMOND. Something in that nature. I don't remember exactly how much it was. It was around a thousand dollars, I think.

Mr. SIMON. Was the first application for \$2,000 and the second application for \$1,200?

Mr. REDMOND. The first application, I believe, was \$1,500.

Mr. SIMON. \$1,500?

Mr. REDMOND. I think so.

Mr. SIMON. That is the one that the Detroit National Bank turned down?

Mr. REDMOND. That is right.

Mr. SIMON. And the second one was for \$1,200?

Mr. REDMOND. I think so.

Mr. SIMON. Do you know why the National Bank of Detroit turned the first loan down?

Mr. REDMOND. No, I don't.

Mr. SIMON. Do you have any idea why?

Mr. REDMOND. No, I don't.

Mr. SIMON. Did the application for the loan say you were going to use the money to build a fence around your house?

Mr. REDMOND. That is correct.

Mr. SIMON. Did you ever use any part of the money to build a fence around your house?

Mr. REDMOND. Not as yet.

Mr. SIMON. Do you still plan to build a fence around your house?

Mr. REDMOND. I do.

Mr. SIMON. What did you use the money for?

Mr. REDMOND. To pay my wife off.

Mr. SIMON. How much did you pay her?

Mr. REDMOND. The money that I borrowed.

Mr. SIMON. How much?

Mr. REDMOND. The money I borrowed from Industrial National Bank.

The CHAIRMAN. The full amount?

Mr. REDMOND. That is right.

Mr. SIMON. Did you pay her all of it?

Mr. REDMOND. I don't remember if I paid her all of it, or just how much. I really did pay her.

Mr. SIMON. Was any of it used to paint the house?

Mr. REDMOND. Yes. I painted the house in and out.

Mr. SIMON. You painted it yourself?

Mr. REDMOND. I did.

Mr. SIMON. How much did you spend for the paint?

Mr. REDMOND. That I don't remember.

Mr. SIMON. Was it as much as \$50?

Mr. REDMOND. I painted the house in and out. It cost much more than \$50, I imagine.

- Mr. SIMON. A hundred dollars?
- Mr. REDMOND. More than \$100.
- Mr. SIMON. \$200?
- Mr. REDMOND. Yes; I would say \$200.
- Mr. SIMON. Where did you buy the paint?
- Mr. REDMOND. At the paint store on Ford Street. I don't know the name of it. I don't know the number.
- Mr. SIMON. Ford Street?
- Mr. REDMOND. Ford Street.
- Mr. SIMON. Ford and what else?
- Mr. REDMOND. I don't know the cross street.
- Mr. SIMON. Near where is it?
- Mr. REDMOND. Well, it is near Miller, I guess.
- Mr. SIMON. What side of the street is it on?
- Mr. REDMOND. The right side coming from town.
- Mr. SIMON. Right side leaving town?
- Mr. REDMOND. Yes.
- Mr. SIMON. Did any other part of this money go for work on the house?
- The CHAIRMAN. Did any other part of the money go to repair the house?
- Mr. REDMOND. I don't remember how much of that money, but it has been money spent on the house. I don't know if it is this or that dollar.
- Mr. SIMON. How much did you give your wife out of this loan?
- Mr. REDMOND. That I don't remember exactly.
- Mr. SIMON. Didn't she get \$1,000?
- Mr. REDMOND. Something in the neighborhood of \$1,000.
- Mr. SIMON. It was \$1,000; wasn't it?
- Mr. REDMOND. I don't remember.
- Mr. SIMON. The loan was for \$1,200; wasn't it?
- Mr. REDMOND. Yes.
- Mr. SIMON. And as Mrs. Stokes took \$200; didn't she?
- Mr. REDMOND. I don't know that.
- Mr. SIMON. Did you personally ever see any part of this money?
- Mr. REDMOND. Yes.
- Mr. SIMON. How much did you see?
- Mr. REDMOND. I saw the whole amount.
- Mr. SIMON. Was the check made out to you?
- Mr. REDMOND. Yes.
- The CHAIRMAN. Did you endorse it to the bank when it was cashed?
- Mr. REDMOND. No.
- The CHAIRMAN. Who did?
- Mr. REDMOND. My wife.
- Mr. SIMON. She endorsed her name as well as yours?
- Mr. REDMOND. Yes.
- Mr. SIMON. She went with Mrs. Stokes to this Universal Jalousie place?
- Mr. REDMOND. I don't know where they went.
- Mr. SIMON. You never saw the check, did you?
- Mr. REDMOND. No.
- Mr. SIMON. How much money did you see your wife have?
- Mr. REDMOND. I saw the full amount.
- Mr. SIMON. What was the full amount?

Mr. REDMOND. Whatever she borrowed, \$1,000, you say.

Mr. SIMON. Didn't she keep the whole \$1,000 for alimony?

Mr. REDMOND. No.

Mr. SIMON. How much did she keep of the \$1,000 for her alimony?

Mr. REDMOND. That I don't remember.

Mr. SIMON. Did she give you any of it?

Mr. REDMOND. Yes.

Mr. SIMON. Did she come home that night with the \$1,000?

Mr. REDMOND. Yes.

Mr. SIMON. Were you and she then separated?

Mr. REDMOND. No.

Mr. SIMON. You were still living together?

Mr. REDMOND. That is right.

Mr. SIMON. Now, what happened to this money? Did she put it in a bank account, or did you put it in a sock? Where did you put the money?

Mr. REDMOND. She put it in the bank.

Mr. SIMON. In her name?

Mr. REDMOND. That is right.

Mr. SIMON. All of it?

Mr. REDMOND. Yes.

Mr. SIMON. The whole \$1,000?

Mr. REDMOND. That is right.

Mr. SIMON. How much did she ever draw out for you?

Mr. REDMOND. That I don't remember.

Mr. SIMON. Thank you.

The CHAIRMAN. Thank you very much, Mr. Redmond.

Our next witness will be Mr. Cedar Point Thompson.

I guess it is a lady. Is it a Miss or Mrs. ?

Mrs. THOMPSON. Mrs.

The CHAIRMAN. Will you be sworn:

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF MRS. CEDAR POINT THOMPSON, DETROIT, MICH.,  
ACCOMPANIED BY AVERN COHN, COUNSEL**

Mrs. THOMPSON. I do.

The CHAIRMAN. The gentleman with you is your attorney?

Mrs. THOMPSON. Yes; Avern Cohn, 701 Bankers Equitable Building.

The CHAIRMAN. Will you give your name and address now, please, for the record.

Mrs. THOMPSON. Mrs. Cedar Point Thompson, 2964 Hooker, Detroit, Mich.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Do you know Mrs. Stokes?

Mrs. THOMPSON. Yes.

Mr. SIMON. How well do you know her?

Mrs. THOMPSON. A little bit more than I would like to.

Mr. SIMON. What do you mean by that?

Mrs. THOMPSON. If it weren't for her I wouldn't be here.

Mr. SIMON. Did she ever tell you that if you needed money she can get it for you?

Mrs. THOMPSON. That isn't the way I originally met her.

Mr. SIMON. How did you first meet her?

Mrs. THOMPSON. Well, it so happened that at that particular time we were in a terrible stretch for housing, and needed a place extremely bad, and, of course, by women talking backward and forth, everybody, all my friends, were trying to find us a place, my husband and I, and had about \$500 saved up; at least he didn't know it, but I had it saved up, and this particular place, we had looked at it in the spring, and due to the fact that this house where we were living was up for sale, at least a for-sale sign had been placed on it, rats had come in the place where we were living, I had been seriously burned the first of the year—I thought it was just about time to make a move, and during this period of time a friend of mine told me that a cousin of hers—she had understood, at least had been getting money for people to be able to obtain homes. She said she didn't know how it was, and that is how I came in to meet her.

Mr. SIMON. She gave you the name of Mrs. Stokes?

Mrs. THOMPSON. Yes; in fact, Mrs. Stokes called me.

Mr. SIMON. And what did she tell you when she called you?

Mrs. THOMPSON. That particular evening she said she would like to come out and talk with me.

Mr. SIMON. When she came out what did she say?

Mrs. THOMPSON. She brought a man with her.

Mr. SIMON. What was the man's name?

Mrs. THOMPSON. If I am not mistaken, she introduced him as either a Mr. Jack or Mr. Jacques, something like that. I wasn't too interested in his name.

Mr. SIMON. Do you know whether Jack was his first name?

Mrs. THOMPSON. No; that is all I knew at that particular time.

The CHAIRMAN. Is Mr. Jack Chisik present?

(No response.)

The CHAIRMAN. Am I pronouncing it right, C-h-i-s-i-k?

Mr. SIMON. Jack Chisik? He is under subpena for 2 o'clock, Senator.

The CHAIRMAN. Is he present?

(No response.)

Mr. SIMON. You don't know whether it was Mr. Jack Chisik?

Mrs. THOMPSON. No; I couldn't definitely say.

Mr. SIMON. If you saw him would you recognize him?

Mrs. THOMPSON. I don't know for sure.

Mr. SIMON. What did they tell you?

Mrs. THOMPSON. Well, first, I definitely didn't want any part—

The CHAIRMAN. Did Mr. Jack Chisik just enter the room?

(No response.)

The CHAIRMAN. You may proceed.

Mr. SIMON. Proceed, please.

Mrs. THOMPSON. At first, I didn't want—not at first—I just didn't want any part of any loan sharks where you had to pay back three times as much as you borrowed, and I told him that in the beginning, and he told me no, this is a perfectly legal loan. You will get your money from the bank, and you will make your payments to them.

Mr. SIMON. Did he tell you it was an FHA title I loan?

Mrs. THOMPSON. At the time; no. In fact, he never did; no.

Mr. SIMON. Who did tell you?

Mrs. THOMPSON. Mrs. Stokes.

Mr. SIMON. Mrs. Stokes told you it was an FHA title I loan?

Mrs. THOMPSON. Yes. However, first, during the conversation with this Mr. Jack, or whatever his name is, he asked me, of course, how much I thought I needed, and whether or not—he showed me the point when you are moving into a used house there is always things that need to be fixed up about it which my husband and I, of course, we had seen a lot of things we did want to do.

Mr. SIMON. How much did you tell him you wanted?

Mrs. THOMPSON. I told him I would need at least around \$1,000.

Mr. SIMON. Didn't you tell him you needed \$700 because you had \$500 and the downpayment was \$1,200?

Mrs. THOMPSON. That was before this suggestion came up concerning financing the place, something like that. I needed exactly \$700. I knew that.

Mr. SIMON. Then he suggested you might need a little more money?

Mrs. THOMPSON. That is right.

Mr. SIMON. Then you said \$1,000?

Mrs. THOMPSON. Yes.

Mr. SIMON. Did they tell you it was all right to put in the application that you already owned the house?

Mrs. THOMPSON. That didn't come in the conversation with them.

Mr. SIMON. Did you put in the application that you already owned the house?

Mrs. THOMPSON. I was advised when the time came for me to make an application, at least when I said that I would go on my own, since—at least since he hadn't gotten any money for me, or anything, Mrs. Stokes advised me I could go to a bank and make my own application due to the fact that I was going to fix my house.

Mr. SIMON. Did Mrs. Stokes tell you what bank to go to?

Mrs. THOMPSON. She named 3 or 4, something like that.

Mr. SIMON. Did you talk to Mrs. Stokes one day and then get a telephone call from a bank the next day telling you that you could come in for your loan?

Mrs. THOMPSON. No; she told me to go and make an application at the bank.

Mr. SIMON. At what bank did she tell you to go to?

Mrs. THOMPSON. She named—I don't know exactly how many, but at least about 3 or 4, maybe 5.

The CHAIRMAN. Just go into any bank and make an application?

Mrs. THOMPSON. Yes.

The CHAIRMAN. Which one did you go into?

Mrs. THOMPSON. I went into the Industrial National Bank here downtown.

Mr. SIMON. Didn't they telephone you before you went into the bank?

Mrs. THOMPSON. No.

Mr. SIMON. Are you certain of that?

Mrs. THOMPSON. I am positive. The only conversation that I had was directly with her.

Mr. SIMON. Were you interviewed in Washington by this committee on September 9, 1954?

Mrs. THOMPSON. Yes.

Mr. SIMON. At that time did you tell the committee that Mrs. Stokes told you that she would have this arranged at the Industrial Bank and the next day the bank called you and told you to bring your husband in to sign the papers?

Mrs. THOMPSON. No. I am sorry. That isn't what I told them. I couldn't have told them that. That isn't the way it happened.

Mr. SIMON. Are you certain that is not what you told them?

Mrs. THOMPSON. I am certain of that.

The CHAIRMAN. Let us read the testimony.

Mr. SIMON. You understand you are under oath?

Mrs. THOMPSON. Yes, I do.

The CHAIRMAN. Let us read the testimony she gave under oath in Washington and see what she did say.

Mr. SIMON. Page 1094 of the transcript, you said:

I told him, let me take the blank home and talk it over with my husband, so he gave it to me, and coming on down I said, "Well, gentlemen, why should I take it home to him," and then we plow through it, and he said I could start it, so I hurriedly right there in the lobby filled it in and took it upstairs and left it, so the next day on my job someone called me, and a man called me, and said he was from the Industrial National Bank, and told me to bring my husband in and told me what floor to go to. I don't exactly remember. So I said, "Well, let's go down," and I thought they wanted more information, so when I went to the bank they had us sign some papers, and I got the check.

Is that right?

Mrs. THOMPSON. Maybe I misunderstood your question. I thought you had asked me whether someone had called me to come into the bank.

Mr. SIMON. I wasn't there.

Mrs. THOMPSON. I am sorry.

Mr. COHEN. I think what she means was that subsequently the bank called her to come in; in your questioning of her, that time the bank did not call.

Mr. SIMON. I didn't ask the questions. I wasn't there. Didn't you also tell them that you were startled by the size of the loan when they handed you the \$1,500 check?

Mrs. THOMPSON. That is absolutely correct. I thought at first it was for about \$150 when I just glanced at it.

Mr. SIMON. Who told them to make out a check for \$1,500?

Mrs. THOMPSON. I don't know.

Mr. SIMON. You didn't ask for \$1,500?

Mrs. THOMPSON. I don't remember asking for it.

Mr. SIMON. When you filled out the application, how much did you put in the application?

Mrs. THOMPSON. If I am not mistaken, I think I asked for about \$1,000.

Mr. SIMON. About \$1,000?

Mrs. THOMPSON. Yes.

Mr. SIMON. Did you put down "About \$1,000" in the application?

Mrs. THOMPSON. No. If I recall, I don't remember exactly what I filled in.

Mr. SIMON. What did you say in the application was to be the purpose for which you were going to use the money?

Mrs. THOMPSON. To establish a parking lot in back of my place, and to fix the stairs to the upstairs apartment, and to paint the house.

Mr. SIMON. Of course, it wasn't true, was it?

Mrs. THOMPSON. Well——

Mr. SIMON. Weren't you going to use the money for the downpayment?

Mrs. THOMPSON. Part of it, and part of it I intended to use for the repairs.

Mr. SIMON. Now, within a week after you got this money, did Mrs. Stokes call on you?

Mrs. THOMPSON. Yes, she did. She called me by phone.

Mr. SIMON. Did she ask you to purchase \$500 worth of supplies from her?

Mrs. THOMPSON. That is right.

Mr. SIMON. What was that conversation?

Mrs. THOMPSON. I told her that my husband was going to do our own remodeling, and fix the cement, and so forth, and then she remarked—she had talked to him first. She told him that I had told her to bring some supplies to the house. He called me on my job, and I told him I hadn't told her any such thing, and then the conversation was backwards and forth, and he told her that she would have to talk to me about that, so that night—that is when I told her definitely that he was going—we were going to buy our own supplies and do our own work so then she advised me of the point that I would never have gotten the loan if she hadn't put in at least half of it.

Mr. SIMON. If she hadn't put in at least half?

Mrs. THOMPSON. If she hadn't deposited at least half of the amount to the bank.

Mr. SIMON. She deposited half of the amount to the bank?

Mrs. THOMPSON. That is what she told me.

Mr. SIMON. Did you end up buying these \$500 worth?

Mrs. THOMPSON. No.

Mr. SIMON. Did you ever pay her any money?

Mrs. THOMPSON. Yes.

Mr. SIMON. How much did you pay her?

Mrs. THOMPSON. \$500.

Mr. SIMON. You paid her \$500?

Mrs. THOMPSON. That is right.

Mr. SIMON. What was that for?

Mrs. THOMPSON. She told me directly how would I like for the place of my employment to know that I had gotten a phony loan, and I asked her what do you mean by a phony loan, and she told me, she said, "You didn't own a house when you got the loan," so that is when I actually felt kind of bad.

Mr. SIMON. Didn't you know it was a phony loan before that?

Mrs. THOMPSON. Well, I will say this: Maybe I guess you would say part was phony, but I didn't know you couldn't use part of the money to make a downpayment and the other for repairs. I really didn't know.

Mr. SIMON. At any rate, you paid her the \$500?

Mrs. THOMPSON. That is right.

Mr. SIMON. And you have the \$1,500 loan at the bank?

Mrs. THOMPSON. That is right.

The CHAIRMAN. Have you since paid the loan off?

Mrs. THOMPSON. We are making our payments. We are current.

Mr. SIMON. Mrs. Thompson, you knew quite a bit about these title I loans before you made this loan; didn't you?

Mrs. THOMPSON. I didn't know title I loans; no.

Mr. SIMON. Hadn't you worked for the Michigan Corporation and Securities Commission?

Mrs. THOMPSON. That is right, sir.

Mr. SIMON. And you worked in the office where they handled these complaints against FHA title I loans?

Mrs. THOMPSON. When the complaints come in and they say FHA, that is the truth. I didn't know one FHA title I from any other type of title. That is the truth.

Mr. SIMON. When you handled these FHA title I complaints in your job you didn't know what they meant?

Mrs. THOMPSON. The only thing I looked for was whether the person's basement was leaking or the roof was leaking.

Mr. SIMON. You didn't know what FHA meant?

Mrs. THOMPSON. Not in the point of title I. I knew that some people bought homes under FHA, and then there were repairs, or what have you. What type was what, I didn't know. I had no reason to before.

The CHAIRMAN. Thank you very much. If you will stand by we might want you a little later, please.

Mr. COHEN. Do you want her to stay the rest of the afternoon?

The CHAIRMAN. If you will please, until we get through. We may want her.

The next witness will be Lawyer Brown.

Mr. Brown, will you please be sworn?

Do you solemnly swear the testimony you are about to give—

Mr. BROWN. I do not swear.

The CHAIRMAN. You do not swear?

Mr. BROWN. No.

The CHAIRMAN. Why?

Mr. BROWN. It is against my religion.

The CHAIRMAN. Against your religion?

Mr. BROWN. Yes. I will confirm my statement.

The CHAIRMAN. I will have to admit this is the first experience I had had in this. I thought I had experienced a little of everything in this investigation to date, but this is a new one.

Mr. SIMON. What about your religion prevents your taking an oath?

Mr. BROWN. I will swear, and the Bible says swear not. We believe in living by the Bible.

Mr. SIMON. What the Senator means is will you take an oath to tell the truth?

Mr. BROWN. I will tell the truth.

Mr. SIMON. Will you tell an oath to tell the truth.

Mr. BROWN. I won't swear.

Mr. SIMON. Will you take an oath to tell the truth?

The CHAIRMAN. Will you hold up your right hand?

Mr. BROWN. That would be swearing.

The CHAIRMAN. How do you want to handle it, then?

Will you affirm?

Mr. BROWN. I will affirm.

The CHAIRMAN. You will affirm?

Mr. BROWN. I will affirm; yes.

The CHAIRMAN. Hold up your right hand.

Do you hereby affirm the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF LAWYER BROWN, DETROIT, MICH.**

Mr. BROWN. I do.

The CHAIRMAN. Thank you, sir. You may be seated.

I think we have had about every experience now that is possible in the last 3 months.

Mr. SIMON. Mr. Brown, will you give the reporter your full name and address, please?

Mr. BROWN. Lawyer Brown, 2215 Court.

The CHAIRMAN. Are you a lawyer or is that your name?

Mr. BROWN. That is my name.

The CHAIRMAN. Lawyer is your name?

Mr. SIMON. You work for the railroad as a car cleaner?

Mr. BROWN. That is right.

Mr. SIMON. Do you know Doris Thomas?

Mr. BROWN. I do.

Mr. SIMON. Does she have a sister named Ruth Stokes?

Mr. BROWN. She do.

Mr. BROWN. Did you have any discussions with Mrs. Stokes and Mrs. Thomas about a loan?

Mr. BROWN. Yes; I did.

Mr. SIMON. You did?

Mr. BROWN. Yes.

Mr. SIMON. What was the nature of that discussion?

Mr. BROWN. I didn't ask them for a loan. I was talking about how my bills were.

Mr. SIMON. How your bills were?

Mr. BROWN. Yes.

The CHAIRMAN. The amount of money you owed?

Mr. BROWN. Yes; how much money I owed and how my bills were that was in bad shape, and I needed some money to catch them up. I had been off. I was a little sick and had been off.

The CHAIRMAN. Where do you work?

Mr. BROWN. I work at the New York Central Railroad.

The CHAIRMAN. How much do you earn each month?

Mr. BROWN. Well, we get paid three times a month now.

The CHAIRMAN. How much do you earn a month in wages?

Mr. BROWN. About \$250.

The CHAIRMAN. \$250 a month.

Mr. BROWN. Yes.

Mr. SIMON. What did you tell her about needing some money?

Mr. BROWN. I told her I needed some money for my bills, to pay my bills up.

Mr. SIMON. What did she say?

Mr. BROWN. She then a few days later she told me, she said, I can get you some money.

Mr. SIMON. Did she tell you where she was going to get it?

Mr. BROWN. No; she didn't.

Mr. SIMON. What else did she say?

Mr. BROWN. So I said, if you can get it I would like to have around \$2,500. I said I could pay off some bills and I could have my bills where I could handle them.

Mr. SIMON. Did you tell her what you wanted the \$2,500 for?

Mr. BROWN. Yes; to pay bills.

Mr. SIMON. To pay bills?

Mr. BROWN. To pay bills; yes.

Mr. SIMON. What kind of bills?

Mr. BROWN. Well—

Mr. SIMON. Were any of them for repairing a house?

Mr. BROWN. Well, I wanted to catch up on what I had.

Mr. SIMON. Do you own a house?

Mr. BROWN. Yes; I do.

The CHAIRMAN. These are to pay past bills, the money you owed in the past?

Mr. BROWN. Bills was behind; yes. And so she tells me that she could get me my money, and—

Mr. SIMON. At a later date did Doris Thomas and Wallace Helies come to see you?

Mr. BROWN. Yes. Doris, she came in later, and then later Mr. Helies.

Mr. SIMON. Did they come in together?

Mr. BROWN. No; she was there when he came.

Mr. SIMON. She was there when he came?

Mr. BROWN. Yes.

Mr. SIMON. Were they connected with each other?

Mr. BROWN. Well, that I don't know why they was connected to one another or not, but I know they was working together while they were there.

Mr. SIMON. That is what I had in mind. They were working together?

Mr. BROWN. They were working together while they were there.

The CHAIRMAN. Doris and Wallace Helies were working together while they were in your presence?

Mr. BROWN. Yes.

The CHAIRMAN. How did they work?

Mr. BROWN. I had told her I needed some money so she knew me well.

Mr. SIMON. This is Doris now?

Mr. BROWN. Yes. Although she have stayed at my house, and she come there, just like she is coming home, so when they came they gave me two pieces of paper, and I signed them, and so I called my wife and got her to sign the paper.

Mr. SIMON. How did they happen to give you these two pieces of paper?

Mr. BROWN. It was understood I needed some money and they was going to get it for me.

The CHAIRMAN. Who is this, Doris Helies? Where did she work?

Mr. BROWN. Doris, she wasn't working any place that I know of.

Mr. CHAIRMAN. Were you here this morning?

Mr. BROWN. Yes.

The CHAIRMAN. Did she testify this morning, this same Doris Helies?

Mr. BROWN. I don't know Doris Helies; I know Doris Thomas.

Mr. SIMON. You don't know where she works?

Mr. BROWN. No. She wasn't working any place that I know at that time.

Mr. SIMON. Did she ever work anywhere?

Mr. BROWN. I don't know that.

Mr. SIMON. How well do you know her?

Mr. BROWN. She stayed at my house. I mean, I never known her to do any work. She did a little day work once in awhile. That is all I knowed about it.

Mr. SIMON. She lived in your house?

Mr. BROWN. Yes; for 3 or 4 months, I guess.

Mr. SIMON. Did she arrange for Mr. Helies to come to your house?

Mr. BROWN. Yes, she did.

Mr. SIMON. And he handed you two pieces of paper; is that right?

Mr. BROWN. She gave me two pieces of paper. She got them from him and gave them to me.

Mr. SIMON. What did the pieces of paper say on them?

Mr. BROWN. I don't know.

Mr. SIMON. Did you ever read them?

Mr. BROWN. No; I didn't.

Mr. SIMON. Are you able to read?

Mr. BROWN. I can read a little.

Mr. SIMON. But you don't know what these pieces of paper said?

Mr. BROWN. No, I don't.

Mr. SIMON. You signed them; is that right?

Mr. BROWN. That is right. I signed them and gave them to my wife to sign.

Mr. SIMON. She signed them?

Mr. BROWN. Yes.

Mr. SIMON. After that did you get some money?

Mr. BROWN. Yes.

Mr. SIMON. How much did you get?

Mr. BROWN. I got \$1,000.

Mr. SIMON. Who did you get it from?

Mr. BROWN. I got it in checks. I got three checks.

Mr. SIMON. Whose checks were they?

Mr. BROWN. From Heaton, Hatton, or some kind of supply company.

Mr. SIMON. Heydon Building Supply Co.?

Mr. BROWN. That is right.

Mr. SIMON. These were the checks of the Heydon Building & Supply Co.?

Mr. BROWN. That is right.

Mr. SIMON. How much were each of the checks for?

Mr. BROWN. I don't remember how much each of these was for, but I do know they was divided into enough to come to \$1,000.

Mr. SIMON. You don't know what they were for, but they totaled \$1,000?

Mr. BROWN. That is right.

Mr. SIMON. Did you find out later that you owed a bank \$1,300 for a home-improvement loan?

Mr. BROWN. Yes.

Mr. SIMON. What is the bank?

Mr. BROWN. Commercial something.

Mr. SIMON. Commerce Bank?

Mr. BROWN. Yes.

Mr. SIMON. What is the rest of the name? Do you know?

Mr. BROWN. I don't know.

Mr. SIMON. Was any part of that money used for repairs or improvements to your home?

Mr. BROWN. Well, I put some—I painted on the inside.

The CHAIRMAN. Painted one side?

Mr. BROWN. Inside the house.

Mr. SIMON. You had done that previously, hadn't you?

Mr. BROWN. I did that when I got the money.

Mr. SIMON. How much of this \$1,000 did you spend for that paint?

Mr. BROWN. I don't know. I just got a bucket of paint at the 5- and 10-cent store.

Mr. SIMON. Five dollars or so?

Mr. BROWN. I paid around \$5 a gallon for the paint.

Mr. SIMON. Did you use about \$5, then, of this \$1,000 for paint?

Mr. BROWN. More than that.

Mr. SIMON. Ten dollars?

Mr. BROWN. I guess I used around \$50.

Mr. SIMON. Fifty dollars?

Mr. BROWN. Yes, around \$50 or \$60.

Mr. SIMON. Did any part of the other \$950 go to repair or modernize your house?

Mr. BROWN. Well, some old cabinets I put in.

Mr. SIMON. How much did you spend on that?

Mr. BROWN. I don't know; I couldn't say.

The CHAIRMAN. About \$5?

Mr. BROWN. More than that.

The CHAIRMAN. Ten dollars?

Mr. BROWN. It was around \$50 or \$40, I guess.

Mr. SIMON. Did any part of the other \$900 go to repair your house?

Mr. BROWN. No.

Mr. SIMON. And you are paying off now on the \$1,300 loan?

Mr. BROWN. Yes.

Mr. SIMON. Who got the other \$300?

Mr. BROWN. I guess whoever got the money got the other \$1,500. I didn't.

Mr. SIMON. Did Doris and Helies tell you that that was a fee for their services?

Mr. BROWN. They told me—she told me, which she did, she told me it would cost the same as getting a loan. I couldn't get a loan because my bills was in too bad a shape.

The CHAIRMAN. Your bills was in too bad a shape?

Mr. BROWN. Yes. I knew I couldn't get a loan, so I didn't try to get one.

Mr. SIMON. Your credit wasn't any good?

Mr. BROWN. That is right.

Mr. SIMON. Did you fill out a credit application when you made this loan?

Mr. BROWN. I didn't fill out any kind of application.

Mr. SIMON. Do you know whether anybody else filled out a credit application for you?

Mr. BROWN. All I know they had asked me questions and I answered them.

Mr. SIMON. What questions did they ask you?

Mr. BROWN. Where I worked, which Doris knowed, and how long I had worked.

Mr. SIMON. Did they ask you how many bills you owed?

Mr. BROWN. Yes.

Mr. SIMON. Did you tell them?

Mr. BROWN. Yes.

Mr. SIMON. Do you know whether they put that down in the application?

Mr. BROWN. I don't know. I never saw the application.

Mr. SIMON. You never saw the application?

Mr. BROWN. No.

Mr. SIMON. Are you paying off the bank now?

Mr. BROWN. Well, I am paying them in time, but I am paying them.

Mr. SIMON. Are you behind?

Mr. BROWN. Yes.

Mr. SIMON. Do you have your book with you?

Mr. BROWN. No.

Mr. SIMON. Do you have any of the papers with you?

Mr. BROWN. No.

The CHAIRMAN. It isn't clear what bank it is.

Mr. SIMON. That is what I asked him about the bank.

The CHAIRMAN. Do you have any papers with you at all?

Mr. BROWN. I don't have no paper.

The CHAIRMAN. Did you know you possibly were violating the law when you got this loan for one purpose and used it for another.

Mr. BROWN. No, I didn't.

Mr. SIMON. You know it is a fraudulent loan, don't you?

Mr. BROWN. Yes.

The CHAIRMAN. You know now, don't you?

Mr. BROWN. Yes.

The CHAIRMAN. It would be against your religion, wouldn't it?

Mr. BROWN. Yes, it sure would.

Here is the bank.

The CHAIRMAN. May we have it, please?

It is the Detroit Bank, called Bank of Commerce, Hamtramck and Michigan.

No, this is to the Heydon Building & Supply Co., Lawyer Brown or Julia Brown.

Mr. SIMON. Isn't that a notice from the bank that a check that Mr. Helies gave you was returned?

Mr. BROWN. Yes. It came back.

Mr. SIMON. That is not the bank you made the loan from?

Mr. BROWN. No, you see, I have an account at Detroit Bank and I deposited the check in my account.

Mr. SIMON. And it bounced back?

Mr. BROWN. That is right.

Mr. SIMON. That is what this notice is?

Mr. BROWN. That is right.

The CHAIRMAN. You mean one of the checks you received bounced?

Mr. BROWN. That wasn't for me. That was a check; it was made out to me, but it was a check to Doris, you see. When I got the money

she needed some money, she said, and I lent her some money out of that money.

Mr. SIMON. You lent some of the money to Doris?

Mr. BROWN. I lent her some of the money.

Mr. SIMON. How much of this \$300 did Doris get?

Mr. BROWN. I don't know that.

Mr. SIMON. In addition to whatever she got out of the \$300 you loaned her some more; is that right?

Mr. BROWN. Yes; I lent her some.

Mr. SIMON. How much did you loan her?

Mr. BROWN. I don't exactly know. I lent her \$50, and then when she got the check, I deposited the check in my name.

Mr. SIMON. You say she got the check?

Mr. BROWN. When she got this check.

Mr. SIMON. This is for \$525.

Mr. BROWN. That is right. That was a check made to me for her.

Mr. SIMON. It was made payable to you for her?

Mr. BROWN. That is right.

Mr. SIMON. Why was it for her?

Mr. BROWN. She said she wanted me to cash the check for her. I said if you want me to cash a check for you you have to put it in my name, have it in my name.

Mr. SIMON. What was this \$525 for?

Mr. BROWN. I don't know. It was her check but made to me.

Mr. SIMON. Why was the Heydon Building & Supply Co., which is Mr. Wallace Helies' company, paying \$525 to Doris?

Mr. BROWN. I don't know.

Mr. SIMON. You don't know what that was for?

The CHAIRMAN. Was Doris a colored or white girl?

Mr. BROWN. Colored.

Mr. SIMON. You don't know what that money was for?

Mr. BROWN. No; I don't.

Mr. SIMON. In addition to the \$500 you still loaned her \$50 more?

Mr. BROWN. I loaned her \$50. I lent her \$50 before she ever—she owed me \$50, and she said, "Well, Mr. Helies owes me some money, and I will pay it to you when I get the money from him." So after she had the check made to me I deposited it and wrote her a check—I wrote her two more checks, and the check wasn't no good and she had cashed the check, so I had to make my check good, too. That made her owe me \$100 some.

Mr. SIMON. What connection is there between Ruth Stokes and Doris Thomas? You started out by dealing with Ruth Stokes; is that right?

Mr. BROWN. No. I wasn't dealing with Ruth Stokes. As I said, I know her.

Mr. SIMON. You knew her?

Mr. BROWN. Yes.

Mr. SIMON. She is the sister of Doris Thomas?

Mr. BROWN. Yes.

Mr. SIMON. Ruth Stokes didn't have anything to do with this deal?

Mr. BROWN. No.

Mr. SIMON. Thank you, very much.

Mr. BROWN, how many FHA loans have you had?

Mr. BROWN. How many FHA loans I have had?

Mr. SIMON. How many FHA loans have you had?

Mr. BROWN. I had one on my house and I bought a hot water tank.

Mr. SIMON. That is two.

Mr. BROWN. That is all. I bought some furniture through the bank.

Mr. SIMON. This was your third FHA loan; is that right?

Mr. BROWN. Yes.

The CHAIRMAN. Who secured each of them for you?

Mr. BROWN. Well—

The CHAIRMAN. This Doris Thomas?

Mr. BROWN. No. The first one I had, it was got through the national bank.

The CHAIRMAN. Which national bank?

Mr. BROWN. National Bank of Detroit.

The CHAIRMAN. National Bank of Detroit, and the second one was got through whom?

Mr. BROWN. The second one was got through the national bank. I bought some furniture.

The CHAIRMAN. What about the third one? The third one was what bank?

Mr. BROWN. That is Commercial, I guess.

The CHAIRMAN. And have you paid or are you still paying on all three of these loans?

Mr. BROWN. That is right.

The CHAIRMAN. You haven't paid any of them off?

Mr. BROWN. No.

Mr. SIMON. Are you in default on all three of them?

Mr. BROWN. What is that?

Mr. SIMON. Are you a little behind on all three?

Mr. BROWN. That is right.

Mr. SIMON. Were you a little behind on the first two when you made the third one?

Mr. BROWN. That is right. I paid them up.

Mr. SIMON. You were a little behind on the first two when you got the third one put through?

Mr. BROWN. That is right.

Mr. SIMON. Thank you.

The CHAIRMAN. Thank you very much. You may remain in the room, though, until we close tonight. Thank you.

Our next witness will be Mrs. Ruth Stokes.

Mrs. Ruth Stokes?

(No response.)

The CHAIRMAN. Mr. Jack Chisik?

(No response.)

The CHAIRMAN. Is the marshal present?

The MARSHAL. Yes, sir.

The CHAIRMAN. We order the marshal to go out and arrest Mrs. Ruth Stokes and Jack Chisik because they are violating a subpoena. They were both subpoenaed to appear in this courtroom at 2 o'clock this afternoon. Unless they do arrive they will be in contempt of this committee, and of the United States Senate. They are not on the outside? They are not out there in the hall?

(No response.)

The CHAIRMAN. We will ask Mrs. Helies to return to the stand, please.

Mrs. Helies, you have already been sworn. Will you be seated, please.

You may proceed, Mr. Counsel.

Mr. SIMON. Mrs. Helies, do you know Doris Thomas?

**TESTIMONY OF MRS. DORIS MAME HELIES, COZY HOME  
IMPROVEMENT CO., DETROIT, MICH.—Resumed**

Mr. HELIES. Yes, I do.

Mr. SIMON. What business dealings does she have with your husband?

Mrs. HELIES. That I don't know.

Mr. SIMON. How do you know her?

Mrs. HELIES. She has been in the building 2 or 3 times.

Mr. SIMON. What building?

Mrs. HELIES. To our home. Our home and office are together.

Mr. SIMON. What was the purpose of her coming to your home and office?

Mrs. HELIES. To discuss business with my husband.

Mr. SIMON. What business did she discuss?

Mrs. HELIES. I don't know.

Mr. SIMON. Were you there?

Mrs. HELIES. No.

Mr. SIMON. Does she work for your husband?

Mrs. HELIES. Not that I know of, sir.

Mr. SIMON. If she doesn't work for him what business did she have to discuss with your husband?

Mrs. HELIES. As far as I know, getting business for him.

Mr. SIMON. Getting business for him?

Mrs. HELIES. Yes.

Mr. SIMON. I am a little confused. You say she doesn't work for him but gets business for him?

Mrs. HELIES. She brought leads into him, as far as I know.

Mr. SIMON. What kind of leads did she bring in to him?

Mrs. HELIES. For modernization work.

Mr. SIMON. For modernization work?

Mrs. HELIES. Yes.

Mr. SIMON. Did he pay her a commission on those leads?

Mrs. HELIES. I believe he did, yes.

Mr. SIMON. The last witness had a notification from the Detroit Bank. Is that where your husband banks?

Mrs. HELIES. No, sir. We do now, yes.

Mr. SIMON. That is where he banks?

Mrs. HELIES. Yes.

Mr. SIMON. This was a notification from the bank that a \$525 check to Doris Thomas has been returned for insufficient funds. Do you know what that check was for?

Mrs. HELIES. No, I do not.

Mr. SIMON. Did you know that he issued a check for \$525 to her that had been returned?

Mrs. HELIES. Not to my knowledge.

Mr. SIMON. You didn't know that?

Mrs. HELIES. No, not to my knowledge.

Mr. SIMON. Do you know a Ruth Stokes?

Mrs. HELIES. No, I don't.

Mr. SIMON. Have you ever heard of her?

Mrs. HELIES. Yes, sir.

Mr. SIMON. Have you ever met her?

Mrs. HELIES. She came to our home about 3 months ago.

Mr. SIMON. What did she come to your home for?

Mrs. HELIES. To demand money.

Mr. SIMON. What was the money for?

Mrs. HELIES. That I don't know.

The CHAIRMAN. To demand money?

Mrs. HELIES. Yes.

Mr. SIMON. What did she say the money was for?

Mrs. HELIES. She said she had to have an attorney.

Mr. SIMON. She had to have the money for an attorney?

Mrs. HELIES. That is right.

Mr. SIMON. Why should your husband be giving her the money for an attorney?

Mrs. HELIES. I don't know. She came to ask him if he would give it to her.

Mr. SIMON. What did she want an attorney for?

Mrs. HELIES. That I don't know.

Mr. SIMON. Was that because she was in trouble on these FHA loans?

Mrs. HELIES. That could be. I don't know, sir.

Mr. SIMON. Were you home when she came?

Mrs. HELIES. Yes, I was. She came early in the morning.

Mr. SIMON. What was the conversation that she had with your husband?

Mrs. HELIES. I don't remember offhand.

Mr. SIMON. How long ago was that?

Mrs. HELIES. I would say, I believe it was around December some time. I am not sure.

Mr. SIMON. December of last year?

Mrs. HELIES. Yes, December or January.

Mr. SIMON. You don't remember what was said?

Mrs. HELIES. No, I don't.

Mr. SIMON. Was that a common occurrence for these women to come to your house and ask for money?

Mrs. HELIES. No, it wasn't.

Mr. SIMON. I would think you would remember what she said.

Mrs. HELIES. I don't because I wasn't around long enough.

Mr. SIMON. You weren't around long enough?

Mrs. HELIES. No, I wasn't. I didn't hear—

Mr. SIMON. Where did you go?

Mrs. HELIES. I think I went in the house. She was in the office.

Mr. SIMON. Is your husband's office and home together?

Mrs. HELIES. Yes, it is.

Mr. SIMON. Where is the office?

Mrs. HELIES. Downstairs.

- Mr. SIMON. In the basement of the home?
- Mrs. HELIES. No; the main floor.
- Mr. SIMON. Does he subcontract all the repair work he does?
- Mrs. HELIES. Just about. He has.
- Mr. SIMON. He subcontracts?
- Mrs. HELIES. Yes.
- Mr. SIMON. He has these women go out and give him the leads?
- Mrs. HELIES. No. He doesn't have any women go out and get him leads.
- Mr. SIMON. I thought you said that.
- Mrs. HELIES. No. I beg your pardon. She came to him with leads. Someone must have sent her. We used to have a lot of people wanting payment in for them which we do not know.
- Mr. SIMON. Here are a couple of cases where he did.
- Mrs. HELIES. I don't know about that.
- Mr. SIMON. Did you hear the testimony of Lawyer Brown?
- Mrs. HELIES. Yes.
- Mr. SIMON. Did you ever hear of him before?
- Mrs. HELIES. Yes. I think we had him listed as a job which I would know nothing about.
- Mr. SIMON. You had him listed as a job?
- Mrs. HELIES. Yes; a subcontract job.
- Mr. SIMON. Did you do any work on his house?
- Mrs. HELIES. I don't know, sir. The subcontracts, I don't know what happens.
- Mr. SIMON. All these jobs are subcontracted out?
- Mrs. HELIES. Not all of them; no.
- Mr. SIMON. Some of them are done by your own people?
- Mrs. HELIES. Yes.
- Mr. SIMON. How many mechanics do you have working or you?
- Mrs. HELIES. Four or five.
- Mr. SIMON. What are their names?
- Mrs. HELIES. Austin Heydon.
- Mr. SIMON. Is he your brother?
- Mrs. HELIES. Yes.
- Mr. SIMON. Who else?
- Mrs. HELIES. Leslie Heydon.
- Mr. SIMON. Is he another brother?
- Mrs. HELIES. Yes.
- Mr. SIMON. Who else?
- Mrs. HELIES. Milton Johnson.
- Mr. SIMON. What does he do?
- Mrs. HELIES. Electrical repair work.
- Mr. SIMON. Is he on a salary with your company?
- Mrs. HELIES. Yes; he is.
- Mr. SIMON. Who else?
- Mrs. HELIES. As a subcontractor.
- Mr. SIMON. As a subcontractor?
- Mrs. HELIES. That is right.
- Mr. SIMON. I was trying to find out from you what employees you had who were not subcontractors.
- Mrs. HELIES. He works right with us, but it is on a subcontract basis. It is not a salary basis.
- Mr. SIMON. What employees do you have on a salary basis?

Mrs. HELIES. Three carpenters.

Mr. SIMON. What are their names?

Mrs. HELIES. Austin and Leslie Heydon and Alva Hartley.

Mr. SIMON. He is on a salary?

Mrs. HELIES. Yes.

Mr. SIMON. Who owns this Heydon Building & Supply Co.?

Mrs. HELIES. My husband and myself.

Mr. SIMON. You and your husband?

Mrs. HELIES. Yes.

Mr. SIMON. Did you own it before he did?

Mrs. HELIES. No, I did not.

Mr. SIMON. How does it happen to have your name, your maiden name, instead of his name?

Mrs. HELIES. We just wanted a name for the company and he decided to use that name.

Mr. SIMON. He just decided to use that name?

Mrs. HELIES. Yes.

The CHAIRMAN. Where is your husband this afternoon?

Mrs. HELIES. He is on a building project in Canada. He has been over there for about 2 months, now. He comes maybe 2 or 3 nights a week. It all depends.

The CHAIRMAN. He has been over there for a couple of months?

Mrs. HELIES. That is right.

Mr. SIMON. Is he going to be home tonight?

Mrs. HELIES. As far as I know. I don't know when he is coming, and when he isn't. I never hear from him.

Mr. SIMON. You told us yesterday you would talk to him last night.

Mrs. HELIES. That is right. He called me at 7:30.

The CHAIRMAN. Did you tell him we wanted him as a witness here today?

Mrs. HELIES. May I finish, please?

The CHAIRMAN. Yes, you may.

Mrs. HELIES. He called me 7:30 last night and he said he didn't know whether he would be coming over or not. If I didn't hear from him at 11 o'clock he would stay over, which he frequently does. The gentleman was out with the subpena about 8:30. I haven't talked to him since.

Mr. SIMON. You haven't talked to him since the man was there with the subpena?

Mrs. HELIES. Yes.

Mr. SIMON. Did you know how to get hold of him?

Mrs. HELIES. Yes. I talked to him on a party line, 12-party line, at St. Joseph. When I called up there last night the line was out of order, which you may check.

Mr. SIMON. Do you keep any records or books at this Heydon Supply Co.?

Mrs. HELIES. We did.

Mr. SIMON. Did you have anything to do with the books and records?

Mrs. HELIES. I kept the books.

Mr. SIMON. You are the bookkeeper?

Mrs. HELIES. Yes.

The CHAIRMAN. When you made out this check to Doris Thomas for \$525 what did the books show that was for?

Mrs. HELIES. I don't remember whether I made the check out or whether I didn't. I didn't make out all the checks.

Mr. SIMON. Even if he made the check out were you the one who made the entries in the book?

Mrs. HELIES. Yes.

Mr. SIMON. What was the entry for that \$525?

Mrs. HELIES. I wouldn't remember.

Mr. SIMON. Were there a lot of checks to girls for big amounts?

Mrs. HELIES. No.

Mr. SIMON. Wouldn't you remember a \$525 check to a Doris Thomas?

Mrs. HELIES. Not specifically, I wouldn't, sir.

Mr. SIMON. How many checks were there to Doris Thomas?

Mrs. HELIES. That I couldn't say.

Mr. SIMON. Were there more than one?

Mrs. HELIES. There may have been; yes.

Mr. SIMON. More than two?

Mrs. HELIES. I couldn't really say. I don't know how many there were.

Mr. SIMON. How many checks were there to Ruth Stokes?

Mrs. HELIES. There were no checks to Ruth Stokes.

Mr. SIMON. No checks to Ruth Stokes?

Mrs. HELIES. No, sir.

Mr. SIMON. Did you or he ever have any dealings with Ruth Stokes?

Mrs. HELIES. No, sir.

Mr. SIMON. If you never had any dealings with her why should she come to him for money when she was in trouble?

Mrs. HELIES. I don't know.

Mr. SIMON. You don't know?

Mrs. HELIES. No; I do not.

Mr. SIMON. Wouldn't that arouse your curiosity when a Negro lady comes to your husband for money because she is in trouble?

Mrs. HELIES. No.

Mr. SIMON. It wouldn't make you a bit curious?

Mrs. HELIES. To a certain extent; yes.

Mr. SIMON. Did you ask him?

Mr. HELIES. Yes.

Mr. SIMON. What did he tell you?

Mrs. HELIES. Because he said he didn't know the woman, why should he give her any money; whether he was putting me off or what, I don't know. That is the answer.

Mr. SIMON. Do you know any reason why she should come to him?

Mrs. HELIES. Not unless she was sent there; no.

Mr. SIMON. Did you know she was the sister of Doris Thomas?

Mr. HELIES. I did not.

Mr. SIMON. You didn't?

Mrs. HELIES. No; I didn't.

Mr. SIMON. Thank you.

The CHAIRMAN. Thank you very much.

Still remain around this afternoon.

Will the deputy marshal—will you please be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF GEORGE H. MARSIL, DEPUTY UNITED STATES  
MARSHAL, DETROIT, MICH.**

Mr. MARSIL. I do.

The CHAIRMAN. Please give your name and address to the reporter, please.

Mr. MARSIL. George H. Marsil.

The CHAIRMAN. What is your official capacity?

Mr. MARSIL. Deputy United States marshal.

The CHAIRMAN. Did you personally serve upon a Mrs. Ruth Stokes and a Mr. Jack Chisik subpoenas to appear here today at 2 o'clock?

Mr. MARSIL. I did.

The CHAIRMAN. Thank you very much.

When did you serve them?

Mr. MARSIL. I would have to check my report, but I did make a personal service on both parties.

Mr. SIMON. Several days ago?

Mr. MARSIL. I would say it was probably 10 days ago.

The CHAIRMAN. You did personally serve both of them approximately 10 days ago?

Mr. MARSIL. Yes, sir.

Mr. SIMON. Do you recall whether it was September 8, 1954?

Mr. MARSIL. That would be very close.

Mr. SIMON. At least that is the return on the Chisik subpoena.

Mr. MARSIL. That would be the correct date.

Mr. SIMON. Did you serve them both the same day?

Mr. MARSIL. To the best of my knowledge service was made on the same day, or there might have been 1 day's difference on the two.

Mr. SIMON. Thank you, sir.

The CHAIRMAN. Our next witness will be William Ray Shepherd. Mr. Shepherd, will you please be sworn?

Mr. SHEPHERD. No pictures.

The CHAIRMAN. We have a rule in this committee that if the witness refuses to have his picture taken, that we abide by his wishes.

Will you be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF WILLIAM RAY SHEPHERD, DETROIT, MICH.**

Mr. SHEPHERD. I do.

The CHAIRMAN. Thank you, sir.

Please be seated and give your full name and address to the reporter.

Mr. SHEPHERD. William Ray Shepherd. My address is 20414 Salem.

Mr. SIMON. That is in Detroit?

Mr. SHEPHERD. That is right.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. You were employed by the Industrial National Bank, Mr. Shepherd?

Mr. SHEPHERD. That is right.

Mr. SIMON. During what period of time?

Mr. SHEPHERD. February 18, 1952, to July 15, 1954.

Mr. SIMON. Do you know a man named Jack Chisik?

Mr. SHEPHERD. Yes.

Mr. SIMON. How long have you known him?

Mr. SHEPHERD. Approximately 1 year.

Mr. SIMON. What were your dealings with Mr. Chisik?

Mr. SHEPHERD. When I first met him, or had dealings with him, he was modernization manager with the Grand Heating Co.

Mr. SIMON. With the Grand Heating Co.?

Mr. SHEPHERD. That is correct.

Mr. SIMON. He was the modernization manager?

Mr. SHEPHERD. That is what I understood.

Mr. SIMON. And what were your business dealings with him?

Mr. SHEPHERD. I contacted him regarding a delinquent account.

Mr. SIMON. You contacted him——

Mr. SHEPHERD. Regarding a delinquent account.

Mr. SIMON. Did he later come and make a proposition to you?

Mr. SHEPHERD. That is right.

Mr. SIMON. And what was his proposition?

Mr. SHEPHERD. To have loans approved and I would receive remuneration for them.

Mr. SIMON. Did he ask you to give him the names of rejected applicants?

Mr. SHEPHERD. That is right.

Mr. SIMON. Why did he want you to give him the names of rejected applicants.

Mr. SHEPHERD. So he could contact those people and try to get the loans approved at other banks.

Mr. SIMON. How much did he pay you for this?

Mr. SHEPHERD. Nothing.

Mr. SIMON. How much?

Mr. SHEPHERD. Nothing.

Mr. SIMON. He paid you for approving loans, didn't he?

Mr. SHEPHERD. He asked me—he paid me for those names, and I said "No."

Mr. SIMON. He didn't pay you for the names?

Mr. SHEPHERD. That is right.

Mr. SIMON. You helped him get approval of loans, I guess the phrase is, "of doubtful qualification," is that correct?

Mr. SHEPHERD. That is right.

Mr. SIMON. He paid you \$50 apiece on those?

Mr. SHEPHERD. I did not state that.

Mr. SIMON. How much did he pay you?

Mr. SHEPHERD. Over a period of time he paid me \$1,650.

Mr. SIMON. What was the rate?

Mr. SHEPHERD. There was no specific rate.

Mr. SIMON. No specific rate?

Mr. SHEPHERD. That is right.

Mr. SIMON. Over how long a period of time did he give you this \$1,650?

Mr. SHEPHERD. I think it was around August through December of 1953.

Mr. SIMON. Of 1953?

Mr. SHEPHERD. Yes.

Mr. SIMON. In a period of about 4 months?

Mr. SHEPHERD. That is right.

The CHAIRMAN. Approximately how many loans were involved?

Mr. SHEPHERD. I estimated about 30.

The CHAIRMAN. About 30 loans?

Mr. SHEPHERD. That is right.

The CHAIRMAN. That would be approximately about \$50 apiece?

Mr. SHEPHERD. Yes.

Mr. SIMON. Those were loans of doubtful qualification; is that right?

Mr. SHEPHERD. That is right.

Mr. SIMON. What bank was it that handled those?

Mr. SHEPHERD. Industrial National Bank.

The CHAIRMAN. Are you still employed by the Industrial National Bank?

Mr. SHEPHERD. No; I resigned.

The CHAIRMAN. When did you resign?

Mr. SHEPHERD. July 17—July 15, 1954.

The CHAIRMAN. Of this year?

Mr. SHEPHERD. That is right.

The CHAIRMAN. Were you in charge of the title I?

Mr. SHEPHERD. No, sir.

The CHAIRMAN. What was your position at the bank?

Mr. SHEPHERD. At the time the loans were approved, I was one of the credit men.

The CHAIRMAN. Did you have authority to approve loans?

Mr. SHEPHERD. Yes, sir.

The CHAIRMAN. And you did approve loans?

Mr. SHEPHERD. That is right.

The CHAIRMAN. You approved loans of doubtful character for Mr. Chisik?

Mr. SHEPHERD. That is correct.

The CHAIRMAN. He paid you in the course, or during the period of time, about \$1,650?

Mr. SHEPHERD. That is right.

The CHAIRMAN. For approximately 30 loans?

Mr. SHEPHERD. That is right.

Mr. SIMON. Mr. Shepherd, you were here this afternoon, were you? Were you here in the last hour and a quarter?

Mr. SHEPHERD. Yes, sir.

Mr. SIMON. Did you hear the testimony of these people who said that they got loans with the help of Ruth Stokes at the Industrial National Bank for purposes unrelated to home modernization?

Mr. SHEPHERD. Yes.

Mr. SIMON. Do you recall any of those loans as being loans that you put through for Chisik?

Mr. SHEPHERD. No, sir.

Mr. SIMON. By that you mean that there weren't any of these loans involved or that you just don't recall?

Mr. SHEPHERD. To my knowledge, those names were not involved in any way.

Mr. SIMON. Do you know whether Chisik had any other people in the bank who were doing things for them?

Mr. SHEPHERD. No, sir.

Mr. SIMON. Did Doris Helies work at the bank?

Mr. SHEPHERD. Yes, sir.

Mr. SIMON. The same branch you did?

Mr. SHEPHERD. Yes, sir.

Mr. SIMON. What were her duties?

Mr. SHEPHERD. The same as mine.

Mr. SIMON. She had authority to approve loans?

Mr. SHEPHERD. That is correct.

Mr. SIMON. Do you know whether she approved any loans for Chisik?

Mr. SHEPHERD. I don't know.

Mr. SIMON. I take it that whatever she did you just don't know about; is that right?

Mr. SHEPHERD. I didn't interfere with her work. She had her work to do and I had my work to do. In other words, what her contacts were, I wouldn't know.

The CHAIRMAN. There was no reason why you should know what she was doing; is that correct?

Mr. SHEPHERD. That is correct.

Mr. SIMON. Do you know Helies, her husband?

Mr. SHEPHERD. I met him before they were married.

Mr. SIMON. Did you ever have any dealings with him?

Mr. SHEPHERD. Other than once I served a subpoena on him.

Mr. SIMON. But you didn't take any paper from him?

Mr. SHEPHERD. No, sir.

Mr. SIMON. Did he do some business with her before they were married?

Mr. SHEPHERD. I don't know.

Mr. SIMON. Thank you very much.

The CHAIRMAN. Will you remain around for the rest of the day, please?

Mr. Philip Rosenbaum, please. Will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF PHILIP ROSENBAUM, DETROIT, MICH.

Mr. ROSENBAUM. Yes, sir.

The CHAIRMAN. Thank you, sir.

Please be seated and give the reporter your name and address for the record.

Mr. ROSENBAUM. Philip Rosenbaum.

Mr. SIMON. Your address?

Mr. ROSENBAUM. 20501 Mark Twain.

Mr. SIMON. Is that in Detroit?

Mr. ROSENBAUM. Yes, sir.

Mr. SIMON. What is your business, Mr. Rosenbaum?

Mr. ROSENBAUM. Contractor.

Mr. SIMON. What is the name of your company?

Mr. ROSENBAUM. It used to be ex-Prime Construction.

Mr. SIMON. It used to be ex?

Mr. ROSENBAUM. Ex-Prime Construction.

The CHAIRMAN. The letter "x"?

Mr. ROSENBAUM. No. What I mean to say—

Mr. SIMON. You were formerly—you formerly operated under the name Prime Construction Co.?

Mr. ROSENBAUM. Yes, sir.

Mr. SIMON. What name do you operate under now?

Mr. ROSENBAUM. None.

Mr. SIMON. Are you in business now?

Mr. ROSENBAUM. No.

Mr. SIMON. You are out of business?

Mr. ROSENBAUM. That is right.

Mr. SIMON. During what period of time did you operate under the name Prime Construction Co.?

Mr. ROSENBAUM. It goes back many years.

Mr. SIMON. What period?

Mr. ROSENBAUM. Approximately 8 years.

Mr. SIMON. Eight years?

Mr. ROSENBAUM. Between 7 or 8 years.

Mr. SIMON. When did you go out of business?

Mr. ROSENBAUM. In 1951.

Mr. SIMON. 1951. Have you been in business since 1951?

Mr. ROSENBAUM. No.

Mr. SIMON. What have you been doing for the last 3 years?

Mr. ROSENBAUM. I was—my license was revoked, I think in 1952 I don't quite remember.

Mr. SIMON. What have you been doing the last 2 years?

Mr. ROSENBAUM. I have worked off and on as a salesman.

Mr. SIMON. As a salesman for whom?

Mr. ROSENBAUM. For various concerns.

The CHAIRMAN. Home repair?

Mr. ROSENBAUM. Home repair.

The CHAIRMAN. Doing business under title I?

Mr. ROSENBAUM. Under title I.

The CHAIRMAN. Yet your license was revoked in 1951?

Mr. ROSENBAUM. That is right.

The CHAIRMAN. You have been selling for other home repair companies who do business with FHA?

Mr. ROSENBAUM. Yes, sir.

Mr. SIMON. When you were Prime Construction Co.—is that right?

Mr. ROSENBAUM. Right.

Mr. SIMON. How many salesmen did you have working for you?

Mr. ROSENBAUM. Offhand, I don't know.

Mr. SIMON. Were there 1 or 2 or 50 or 60?

Mr. ROSENBAUM. I can only make an approximate estimate.

Mr. SIMON. What is your best recollection?

Mr. ROSENBAUM. About 12.

Mr. SIMON. About 12?

Mr. ROSENBAUM. About.

Mr. SIMON. Was the turnover pretty high?

Mr. ROSENBAUM. At one period of time.

Mr. SIMON. When was the turnover pretty high, what period?

Mr. ROSENBAUM. I am just mixed up. Either in 1951 or 1952. I can't quite—

Mr. SIMON. Prior to that time, did they all stay a long time?

Mr. ROSENBAUM. It ranged.

Mr. SIMON. It ranged?

Mr. ROSENBAUM. Yes.

Mr. SIMON. What do you mean by that?

Mr. ROSENBAUM. Prior to the time of 1951, or 1952, I have been doing a regular amount of business, year after year.

Mr. SIMON. Between—then it was only in 1950 or 1951 that you took on these suede-shoe salesmen?

Mr. ROSENBAUM. I wouldn't say that.

Mr. SIMON. What is the distinction between the type of business you did prior to 1950 and the type of business you did after 1950?

Mr. ROSENBAUM. Mostly I operated with very few sales force.

Mr. SIMON. And you expanded about 1950, is that right?

Mr. ROSENBAUM. That is correct.

Mr. SIMON. Where did you get these salesmen?

Mr. ROSENBAUM. I got them as I went along.

Mr. SIMON. Where did you get them?

Mr. ROSENBAUM. I didn't look for them.

Mr. SIMON. They looked for you?

Mr. ROSENBAUM. Precisely.

Mr. SIMON. What did they tell you when they came in?

Mr. ROSENBAUM. That they wanted to work.

Mr. SIMON. That they wanted to work?

Mr. ROSENBAUM. Yes.

Mr. SIMON. Did they operate on sort of an independent basis, they would go out and get the contracts and give them to you if they felt like it, or give them to someone else if they wanted to?

Mr. ROSENBAUM. I would say they were with me, they exclusively dealt with me.

Mr. SIMON. They worked for you exclusively? Did these people have their own trade built up before they came to you?

Mr. ROSENBAUM. What do you mean by that?

Mr. SIMON. Well, you say they sought you out. What reason did they give you for hiring them?

Mr. ROSENBAUM. What reason they gave me?

Mr. SIMON. Yes. You say they sought you.

Mr. ROSENBAUM. That I hired them?

Mr. SIMON. Yes.

Mr. ROSENBAUM. I gave them a trial.

Mr. SIMON. You gave them a try?

Mr. ROSENBAUM. Right.

Mr. SIMON. What basis did you pay them?

Mr. ROSENBAUM. Ten percent was retained.

Mr. SIMON. Say that again.

Mr. ROSENBAUM. Ten percent was retained.

Mr. SIMON. Ten percent was retained?

Mr. ROSENBAUM. Yes.

Mr. SIMON. What do you mean by that?

Mr. ROSENBAUM. On certain materials.

Mr. SIMON. Is what you mean, Mr. Rosenbaum, that the job would cost you so much, and you would take 10 percent off the top for yourself, and everything else was the salesman's?

Mr. ROSENBAUM. That is right.

Mr. SIMON. In other words, if the job cost \$300, and he sold it for \$900, you would get \$90, the subcontractor who did the work would get \$300, and the salesman would get \$550?

Mr. ROSENBAUM. That is correct.

Mr. SIMON. Was there any limit—

Mr. ROSENBAUM. If it was that kind of a deal.

Mr. SIMON. How is that?

The CHAIRMAN. You just used an example. He could have used larger or smaller figures. That was the basis on which it was worked?

Mr. ROSENBAUM. Yes.

Mr. SIMON. Were there cases in which the salesman got as much as 50 percent of what the homeowner paid?

Mr. ROSENBAUM. I couldn't recall.

Mr. SIMON. You don't know one way or the other?

(Witness shakes head negatively.)

Mr. SIMON. Did you ever concern yourself with how much they charged the homeowner?

Mr. ROSENBAUM. I might have advocated fair-trade policy of not to exceed a certain amount.

Mr. SIMON. Not to exceed what?

Mr. ROSENBAUM. Certain amounts.

Mr. SIMON. What was certain amounts?

Mr. ROSENBAUM. I cannot remember the details.

Mr. SIMON. Did your salesmen use the model-home pitch?

Mr. ROSENBAUM. No, sir.

Mr. SIMON. Are you certain of that?

Mr. ROSENBAUM. Only one of them.

Mr. SIMON. Which one was that?

Mr. ROSENBAUM. Mr. Burke.

Mr. SIMON. Mr. Burke?

Mr. ROSENBAUM. Right.

Mr. SIMON. How long did he work for you?

Mr. ROSENBAUM. Several months.

Mr. SIMON. How many sales did he make?

Mr. ROSENBAUM. Several.

Mr. SIMON. How many?

Mr. ROSENBAUM. I can't tell you offhand. The records can show that.

The CHAIRMAN. Fifty, a hundred?

Mr. ROSENBAUM. Less.

Mr. SIMON. We had two witnesses this morning, Mr. Rosenbaum, who—were you here when they testified?

Mr. ROSENBAUM. Yes.

Mr. SIMON. Who was the salesman that sold them?

Mr. ROSENBAUM. Mr. Burke and Mr. Newman.

Mr. SIMON. What about Mr. Newman? Did he use the model-home pitch?

Mr. ROSENBAUM. Not to my knowledge.

Mr. SIMON. Are you certain that he didn't?

Mr. ROSENBAUM. Not to my knowledge.

The CHAIRMAN. What bank financed your paper?

Mr. ROSENBAUM. Industrial National Bank.

The CHAIRMAN. Industrial National Bank. For how long a period did they handle it?

Mr. ROSENBAUM. I was with them for several years.

The CHAIRMAN. For several years?

Mr. ROSENBAUM. Yes.

The CHAIRMAN. Did you have to pay anybody in the bank to take your paper?

Mr. ROSENBAUM. No, sir.

The CHAIRMAN. Did you ever pay a dime to anybody at the bank?

Mr. ROSENBAUM. No.

Mr. SIMON. Did they ever reject any of your paper?

Mr. ROSENBAUM. Yes.

Mr. SIMON. How many times?

Mr. ROSENBAUM. Quite often.

Mr. SIMON. How often?

Mr. ROSENBAUM. I would say 3 out of 10—3 or 4 out of 10.

Mr. SIMON. That is 3 or 4 out of 10?

Mr. ROSENBAUM. Perhaps.

Mr. SIMON. What did you do with those?

Mr. ROSENBAUM. Nothing.

The CHAIRMAN. Did they ever call to your attention that they disapproved of your sales methods?

Mr. ROSENBAUM. I would like to make a point clear, coming back to the model pitch, if I may.

The CHAIRMAN. You may.

Mr. ROSENBAUM. I discovered a deal that was an assumption of a model pitch. It was the only deal that I knew of at the time.

The CHAIRMAN. An assumption of the model pitch?

Mr. ROSENBAUM. Yes.

The CHAIRMAN. What do you mean by that?

Mr. ROSENBAUM. Mr. Carrico, from the better business bureau called me up, and explained to me about Mr. and Mrs. Pichan that they have turned in a complaint, and he wanted to have it taken care of.

The CHAIRMAN. You had an office. You weren't a contractor in the true sense of the word, were you? You were really a sales manager?

Mr. ROSENBAUM. I was a contractor.

The CHAIRMAN. You had a lot of people working for you and you did the work?

Mr. ROSENBAUM. What you might call subcontract—

The CHAIRMAN. Didn't you subcontract all your work?

Mr. ROSENBAUM. Yes, sir.

The CHAIRMAN. You were just a solicitor of business?

Mr. ROSENBAUM. Yes.

The CHAIRMAN. When you got the business you would go out and subcontract it to the one who would do it for the least amount?

Mr. ROSENBAUM. Yes.

The CHAIRMAN. You went on like that for many years?

Mr. ROSENBAUM. That is right.

The CHAIRMAN. Did you furnish the Industrial National Bank with a statement?

Mr. ROSENBAUM. Yes.

The CHAIRMAN. You don't have your statement with you?

Mr. ROSENBAUM. No.

The CHAIRMAN. Did they ever call to your attention that they disapproved of your methods?

Mr. ROSENBAUM. My methods—there was nothing wrong with my methods except that one complaint I had of that model pitch.

The CHAIRMAN. You weren't even a contractor in a true sense. You weren't a lumberyard, you weren't a dealer, you weren't a contractor. You were just——

Mr. ROSENBAUM. I was——

The CHAIRMAN. You were just a solicitor of business. My point is: Did the bank object to that sort of thing? Did they ever call to your attention the fact they had complaints against you from the better business bureau or other sources?

Mr. ROSENBAUM. May I describe my nature of contracting?

The CHAIRMAN. Yes, you may.

Mr. ROSENBAUM. I was a residential maintenance contractor licensed by the Michigan Securities Commission.

The CHAIRMAN. Did they ever cancel your contract?

Mr. ROSENBAUM. My contract?

The CHAIRMAN. Yes; your license. Did they ever cancel your license?

Mr. ROSENBAUM. They did, on account of the Pichan and Mays complaint.

The CHAIRMAN. The two complaints we had in here this morning?

Mr. ROSENBAUM. Right. That was the model pitch that I am referring to, and I would like to make it clear how the procedure of the deal itself worked.

Mr. SIMON. The thing I don't understand is why the bank turned down 3 or 4 out of every 10 loans you gave them if these 2 then were the only bad ones.

Mr. ROSENBAUM. What do you mean by that?

Mr. SIMON. Well, you didn't—didn't you testify a minute ago that the bank turned down 3 or 4 out of every 10?

Mr. ROSENBAUM. Approximately, I said.

Mr. SIMON. That means they turned down 30 to 40 percent of all the loans you turned in to them; is that right?

Mr. ROSENBAUM. Well, I would say periodically, it would range that way.

Mr. SIMON. It would range between 30 and 40 percent?

Mr. ROSENBAUM. Periodically.

Mr. SIMON. Doesn't that mean that you were signing up contracts with a lot of, at least, poor business risks, if the bank was turning down a third of them?

The CHAIRMAN. Why were they turning them down?

Mr. ROSENBAUM. Because their credit was no good.

Mr. SIMON. Did the bank ever complain to you that you were taking too many people whose credit wasn't any good?

Mr. ROSENBAUM. I have no way of finding out whether people are good or bad unless the bank checks them.

Mr. SIMON. They continued to do business with you even though they had to turn down a third of your customers?

Mr. ROSENBAUM. Well——

The CHAIRMAN. What would you do with those that were turned down? Would you take them to some other bank and get them through?

Mr. ROSENBAUM. No.

The CHAIRMAN. You just lost the business?

Mr. ROSENBAUM. Right.

Mr. SIMON. Did you go to the bank before the work was done? Did you check their credit?

Mr. ROSENBAUM. Go to the bank?

Mr. SIMON. Yes, to check their credit before you did the work?

Mr. ROSENBAUM. Right.

Mr. SIMON. Supposing your salesman signed up a contract tonight. How soon would they start work on the job?

Mr. ROSENBAUM. I would know, not exactly.

Mr. SIMON. Didn't you usually start work the next morning?

Mr. ROSENBAUM. Some of them.

Mr. SIMON. If the contract was signed tonight, and the work was started the first thing the next morning, how could you check with the bank on the credit?

Mr. ROSENBAUM. If the credit would have been bad, I would have been stuck. If such procedure did take place——

The CHAIRMAN. You must have been stuck a lot of times if the bank turned down 3 out of 10 contracts.

Mr. ROSENBAUM. I would say, "Yes."

Mr. SIMON. You did get stuck a lot?

Mr. ROSENBAUM. Not too much. I used judgment.

Mr. SIMON. Mr. Rosenbaum, a minute ago you said you never knew what a man's credit was until the man told you. Now you said you used judgment.

Mr. ROSENBAUM. I didn't know definitely whether it was good or bad, but I could use my judgment.

Mr. SIMON. What judgment did you use when a salesman brought you in a contract the first thing in the morning that he got signed the night before?

Mr. ROSENBAUM. If I liked the statement, the income, and certain things that could convince me, I wouldn't object to start the job.

Mr. SIMON. Did you examine each credit report like that?

Mr. ROSENBAUM. Yes.

Mr. SIMON. How come the bank disagreed with you on 3 or 4 out of every 10 cases?

Mr. ROSENBAUM. Well, if they disagreed, I had no deal.

Mr. SIMON. But if you examined the credit material on every case and you were a prudent businessman, how come the bank disagreed with you on so many cases?

Mr. ROSENBAUM. I don't know.

The CHAIRMAN. Did you, in discounting or selling this paper to the bank, endorse it and guarantee payment?

Mr. ROSENBAUM. Endorse and guarantee?

The CHAIRMAN. Yes. Was it sold to them with or without recourse?

Mr. ROSENBAUM. Without recourse.

The CHAIRMAN. Without recourse. In other words, if the paper was not good, you had no further liability?

Mr. ROSENBAUM. No further liability.

Mr. SIMON. As a matter of fact, you knew the Federal Government guaranteed all the paper; didn't you?

Mr. ROSENBAUM. Yes. Now I would like to explain.

The CHAIRMAN. Except the banks paid a fee that went into a fund that was used to take care of losses up to the amount of the fee or up to the amount of the fund?

Mr. ROSENBAUM. I don't understand that.

The CHAIRMAN. It isn't necessary that you do. That is the bank's problem. Anything else, Mr. Simon?

Mr. SIMON. No, sir.

The CHAIRMAN. Thank you very much. We would like to have you remain for the rest of the afternoon, if you will, please.

Our next witness will be Mr. Barbeau, with the Industrial National Bank. Will you come forward, please? Will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF ALBERT R. BARBEAU, INDUSTRIAL NATIONAL BANK, DETROIT, MICH.**

Mr. BARBEAU. I do.

The CHAIRMAN. Please be seated and give your full name to the reporter for the record.

Mr. BARBEAU. Albert R. Barbeau, 1483 Harding Avenue, Detroit, Mich.

Mr. SIMON. Can you speak a little louder, please, Mr. Barbeau?

Mr. BARBEAU. Yes.

Mr. SIMON. What is your occupation?

Mr. BARBEAU. I am present manager of the title I operation of the Industrial National Bank.

Mr. SIMON. Are you in charge of all the title I operations for the bank?

Mr. BARBEAU. Yes, sir.

The CHAIRMAN. Did Mr. Shepherd, the gentleman who testified here a few minutes ago, work under you?

Mr. BARBEAU. Yes.

The CHAIRMAN. You were in charge of the department when he was employed there?

Mr. BARBEAU. Yes.

The CHAIRMAN. Did you hear the previous witness testify?

Mr. BARBEAU. Yes.

The CHAIRMAN. Did your bank handle his business for many years?

Mr. BARBEAU. Yes.

The CHAIRMAN. Do you have a file on that gentleman or his company with you?

Mr. BARBEAU. I don't have it right now; no.

The CHAIRMAN. What files did you bring with you?

Mr. BARBEAU. I brought Cozy Home Improvement.

The CHAIRMAN. May we see it, please?

Mr. BARBEAU. Surely.

The CHAIRMAN. Suppose you be seated over there and we will ask you some questions.

Take the Cozy Homes. I presume we can use that as an example. In other words, the Cozy Homes at one time began doing business with your bank for the first time, is that right?

I presume they came in and ask that you finance, under FHA guaranty, finance their home modernization loans. Did you ask them for a financial statement at that time?

Mr. BARBEAU. Well, we usually procure those through the Bureau of Credits.

The CHAIRMAN. Will you give me a copy of your files there of the financial statement that was given to you on Cozy Homes at that time?

Mr. BARBEAU. If you will bear with me a minute.

The CHAIRMAN. We will.

This is the statement of Cozy Homes Improvement Co., Bureau of Credits, Inc., October 18, 1951.

About how many loans did you handle for this company over the period of years they were doing business with you?

Mr. BARBEAU. During 1951, we purchased 124 deals for an aggregate total of \$104,915.43.

The CHAIRMAN. That was during 1954?

Mr. BARBEAU. 1951.

The CHAIRMAN. How much in 1952?

Mr. BARBEAU. 1952, 25 deals for \$25,290.84.

The CHAIRMAN. 1953?

Mr. BARBEAU. None in 1953.

The CHAIRMAN. And none, of course, in 1954?

Mr. BARBEAU. That is right.

The CHAIRMAN. This statement that you handed me which is dated October 18, 1951, that is when you did your first business with them?

Mr. BARBEAU. That is correct.

The CHAIRMAN. I notice that it has cash on hand, \$600; accounts receivable, \$3,500; merchandise inventory, \$973; equipment, \$250; other assets, \$700; a total of \$6,123. Then on accounts payable side is liabilities, \$1,240; net worth, \$4,883.

Is this the basis which you handled—what was it, a couple of hundred thousand dollars' worth of their paper?

Mr. BARBEAU. Yes. They were licensed by the Michigan Corporation Securities Commission and we based our—

The CHAIRMAN. On the fact they had license?

Mr. BARBEAU. Yes, and the fact we got the Bureau of Credits report.

The CHAIRMAN. And they listed equipment of only \$250. How could they have been much of a home-repair and modernization concern with only \$250 worth of equipment?

Mr. BARBEAU. Of course, most of these concerns subcontract their jobs.

The CHAIRMAN. Do you think it was ever intended by the Congress that you were to finance paper for just a little sales organization?

Mr. BARBEAU. Well, I know it had been done throughout the country.

The CHAIRMAN. I know it has been done. That is one of the reasons for this investigation.

Would you have extended this amount of credit to this concern had the Federal Government not have been guaranteeing it?

Mr. BARBEAU. Well, I think we don't use any more precautionary matters on our own than we would on FHA.

The CHAIRMAN. You are not saying to me in this instance you used as much precaution when you were representing the Federal Government as you would have been if you were loaning without any guaranty, do you?

Mr. BARBEAU. We scrutinize all our credits, all types of loans. We are not only limited to FHA but personal loans and some loans on our own plan.

The CHAIRMAN. These contracts and notes that this Cozy Homes turned over to your bank, how did you check the credits on those?

Mr. BARBEAU. Through a local—the credits on the individual cases?

The CHAIRMAN. Yes. How did you handle it? Did you get a credit report on them?

Mr. BARBEAU. Well, where the amounts were relatively large, we did, and in most instances, we checked with the local bureau and Michigan Merchants Credit Bureau. They have quite a complete file, and they are cleared here in the city of Detroit and some of the outlying towns.

The CHAIRMAN. How many accounts would you say that your bank had of this nature where they were strictly a hundred percent sales organization, with 1 or 2 people in the office, and they would go out and sell, high-pressure, the homeowner into buying something that they possibly did not need and then subcontract with somebody else and bring it in to you and get it financed.

Mr. BARBEAU. I wouldn't know offhand, sir.

The CHAIRMAN. Is this a normal example, a good example, or is this an unusual case?

Mr. BARBEAU. Well, I might term it normal, and unusual.

The CHAIRMAN. Both normal and unusual?

Mr. BARBEAU. Yes.

The CHAIRMAN. Do you mean by that that these home loan companies that you did business with were of the general nature of this?

Mr. BARBEAU. Well, we have had—we have always assumed and thought that our past experience, that of course statements similar to the one you are just looking at there, and checking over, why we have had some dealers that we have never had a bit of trouble with that probably had no more worth than they had, that conducted their business the way it should have been conducted. We never had any trouble with them.

The CHAIRMAN. I presume that is true, but here is a case where you did have trouble with these people later.

Mr. BARBEAU. That is right.

The CHAIRMAN. Did you personally as head of this department check into the accounts that were handled where they paid this gentleman, Mr. Shepherd, what was it, \$1,650?

Mr. BARBEAU. Well, I was manager of the department at that time, and, of course, I didn't know the situation.

The CHAIRMAN. Do we have any more witnesses that financed their accounts through the Industrial Bank? You brought us one other file, didn't you? Do you have the file on the Heydon Building & Supply Co.?

Mr. BARBEAU. No. We never did any business with them.

The CHAIRMAN. Prime Construction Co.—do you have a file on that?

Mr. BARBEAU. We have one file you inquired about and that is that Mays file. I have it here.

The CHAIRMAN. That was the individual?

Mr. BARBEAU. Yes.

The CHAIRMAN. You handled paper for the Prime Construction Co., did you not?

Mr. BARBEAU. That is right.

The CHAIRMAN. Do you have their financial statements they rendered at the time?

Mr. BARBEAU. No; I don't happen to have it. Here is the Mays.

The CHAIRMAN. This is that Mays file.

Show me the financial report that you had. Let the attorney see it. What I want you to do is show me the financial report you secured on Mays before you made the loan. I couldn't see it. I didn't find it in there. There is this financial report on Mays.

Mr. BARBEAU. I would have to look at it, sir, at the file.

The CHAIRMAN. Did you finance the Oak Building Supply Co.?

Mr. BARBEAU. Yes, sir.

The CHAIRMAN. Do you have the financial statement they gave you when they started doing business with you?

Mr. BARBEAU. Not right now, I haven't got it.

The CHAIRMAN. Would you bring that to us tomorrow morning and also the Prime Construction Co.?

Mr. BARBEAU. I will make a note of that, sir.

The CHAIRMAN. Did you do business with the Glendale Supply Co.?

Mr. BARBEAU. Not to my knowledge.

The CHAIRMAN. Will you bring in their statement?

Mr. BARBEAU. Yes, sir.

The CHAIRMAN. Did you ever do business with Jack Chisik?

Mr. BARBEAU. Only under Advance Construction Co.

The CHAIRMAN. Will you bring in that financial statement also, of Jack Chisik, under the name of Advance Construction Co.?

Mr. BARBEAU. Advance Construction, and what is that other one, Oak Park Building?

The CHAIRMAN. Yes, sir. Prime Construction, Glendale Construction, and Advance Construction. That is Jack Chisik's company.

Mr. BARBEAU. I have got Glendale, Prime, Oak Park, and Advance Construction. Those are the four.

The CHAIRMAN. Oak Park, Prime Construction—you say you have never done any business with Haydon?

Mr. BARBEAU. No. I have four—

The CHAIRMAN. I hand you this file and ask you to show me the financial statement that you secured or any credit information whatsoever that your bank secured on Mr. Mays.

Mr. BARBEAU. Well, we check the Merchants Credit Bureau.

The CHAIRMAN. How, by telephone?

Mr. BARBEAU. By telephone and they reported that on March 19, 1952. They had nothing on file on this party.

The CHAIRMAN. You mean they had no record of whether he was good or bad?

Mr. BARBEAU. That is correct.

The CHAIRMAN. What else did you do?

Mr. BARBEAU. We checked the property. We verified the fact that Jim S. Mays, and it says here we checked Line Realty, and the figures verified, pay, \$75 a month and a new account, apparently they had just purchased—it had been purchased in 1952, about 3 months prior to the time.

The CHAIRMAN. You did all that by telephone?

Mr. BARBEAU. Yes. Then we called one reference that they had given us, the furniture company, and they had opened an account with these people in May of 1951, \$74.15, and they paid it up satisfactorily.

The CHAIRMAN. Did you do all that before you disbursed the funds?

Mr. BARBEAU. That is right.

The CHAIRMAN. That was your practice?

Mr. BARBEAU. Yes.

The CHAIRMAN. You understand we are not singling your bank out because we find the general pattern throughout the United States of lending institutions being, I don't mind telling you and I dislike to tell you, and that is being very, very careless in the handling of these FHA home-modernization loans.

I think it is very, very unfortunate. I just want to say to you and to all the other banks in Detroit as we have said everywhere. The time has arrived when you ought to clean this thing up yourself—you and the dealers, and it ought not ever have been permitted and it should not be permitted today, because it is just—I think it is a terrible thing. I think private enterprise ought to begin to clean up its own house in this instance. I can well understand how the suedeshoe fellows and dynamiters and cheats can go out and fool a lot of people in the homes. It is pretty hard for me to understand how they can fool good banks, reputable banks, too.

We have been at this now 4 or 5 months and frankly we are getting a little tired of it. It ought not to happen. I hope you will clean it up. We just can't blame the dealers and can't blame everybody else and not blame the banks in some respects because you really were acting as trustees for the United States Government, and the American taxpayers.

I don't think there is any question but what the records show throughout the United States that you were not as careful as you should have been.

Is there any further question?

Mr. SIMON. Yes, sir.

Did I understand you to say that you relied on the State licensing board, the fact that they had issued a license to these companies?

Mr. BARBEAU. Not altogether; no.

Mr. SIMON. Did you put any reliance in that at all?

Mr. BARBEAU. To this extent, that we wouldn't buy any paper unless the dealer was licensed, but that in itself, having a license, why the man may not probably, in a good many instances wouldn't qualify in our estimation because he probably would be lacking in other things that we might look for in a dealer.

Mr. SIMON. Did you hear Mr. Rosenbaum say that your bank had turned down 3 or 4 out of every 10 contracts he turned in?

Mr. BARBEAU. I heard him make that statement.

Mr. SIMON. Rosenbaum. Is that true?

Mr. BARBEAU. Not having the record before me—I will bring the record tomorrow.

Mr. SIMON. Does it seem likely to you that you would turn that high a percentage of his loans?

Mr. BARBEAU. I wouldn't make a statement right now without reviewing the records.

Mr. SIMON. Would you continue to do business with anybody who brought you that much bad paper?

Mr. BARBEAU. Well, we would watch it.

The CHAIRMAN. I hand you this file of six cards and that says "claims filed." Does that mean you filed a claim with the Government to be reimbursed for deals you made with Cozy Homes?

Mr. BARBEAU. That is right, sir.

The CHAIRMAN. Read the amounts you filed with the Government on each.

Mr. BARBEAU. \$510.88.

The CHAIRMAN. What is the date?

Mr. BARBEAU. That was August 1954.

The CHAIRMAN. Then read them all, will you, please?

Mr. BARBEAU. \$110.76, July 1954; \$704.25, May 1954; \$97.05, April 1954; \$760.06, March 1954; \$267, March 1954.

The CHAIRMAN. All this year?

Mr. BARBEAU. That is right.

The CHAIRMAN. You filed claims for them. I want to say this in all fairness to the lenders: that the lender pays a fee on each of these loans that he makes, which goes to the FHA, and that accumulates a reserve out of which they pay these losses. Of course, the taxpayers will not lose any money unless the losses become greater than the total amount of the fees that are paid in by all the lenders on the loans. I think, in all fairness, we want to say that. I want to say this: that up until this time the Federal Government has not lost any money beyond those fees, but that is not the point that concerns this committee. The point that concerns this committee is the millions and millions of dollars that the homeowners have been, frankly, fleeced out of. That is the thing that worries us. We have had that all over the United States.

I want to say we are not picking on your company. Other banks have been involved, as you well know, and their names are brought out here today. We are not doing that at all. Our job is to investigate this matter and let the chips fall where they may, and throw some light on the matter so we may put a stop to it.

No. 2: The banks will be more careful in the future. We will keep dealers out of it that have sharp practices, and the homeowners themselves can be on guard against these people that would come out and take advantage of them because they are able to get their paper guaranteed by the Federal Government. That is what we are trying to do.

Mr. SIMON. Mr. Barbeau, are you still taking paper of the Oak Park Construction Co.?

Mr. BARBEAU. No; we discontinued.

Mr. SIMON. When did you stop?

Mr. BARBEAU. I will bring those records over tomorrow, sir.

Mr. SIMON. Isn't it a fact you continued to take paper from the Oak Park Construction Co. after Fargo and Swaab had both been put on the precautionary list?

Mr. BARBEAU. There were some involvements.

Mr. SIMON. Isn't that a fact?

Mr. BARBEAU. Yes.

Mr. SIMON. You did continue to take paper?

Mr. BARBEAU. Yes; for a short time, and because there were other loans that were involved, and we wanted to have them worked out so the borrower wouldn't be hurt, you see.

Mr. SIMON. When you took that paper did you know Fargo and Swaab were both on the FHA precautionary list?

Mr. BARBEAU. I didn't know about Swaab, but I knew about Joe Fargo. I knew he had served time for irregularities in FHA.

Mr. SIMON. Would you call that merely irregularities in FHA; what he did?

Mr. BARBEAU. Well, it is probably worse than that.

Mr. SIMON. It was criminal fraud, wasn't it?

Mr. BARBEAU. Yes.

Mr. SIMON. Yet you took that paper.

Mr. BARBEAU. I didn't know that he was connected with them. He probably was a salesman.

Mr. SIMON. Didn't you know he was connected with them?

Mr. BARBEAU. I knew he was working for them but he wasn't part of the owner of it.

Mr. SIMON. When did you find out he was connected with them?

Mr. BARBEAU. My files would probably reveal that, if there was anything in the files.

Mr. SIMON. But you continued to take their paper for a long time after you knew it, didn't you?

Mr. BARBEAU. I can give you the facts tomorrow, the dates, and so forth.

Mr. SIMON. But it is a fact that you continued to take their paper?

Mr. BARBEAU. That is correct.

Mr. SIMON. What about the Pioneer Construction Co.? Did you take their paper?

Mr. BARBEAU. I will have to check that.

Mr. SIMON. Have you ever heard of them?

Mr. BARBEAU. I have heard about them.

Mr. SIMON. Do you know Irving Swaab?

Mr. BARBEAU. Well, he is deceased now. Is that the one you have in mind?

Mr. SIMON. Yes; Pioneer Construction Co.

Mr. BARBEAU. I don't recall any of their deals, but I will check.

Mr. SIMON. Do you take the paper in your bank of people with long police records?

Mr. BARBEAU. Not knowingly.

Mr. SIMON. Do you ever check the police records before you do business with these people?

The CHAIRMAN. We are talking about FHA title I now. We don't care what you do with the money that is not guaranteed.

Mr. SIMON. Do you check the records, the police records?

Mr. BARBEAU. No.

Mr. SIMON. You don't bother to check the police records?

Mr. BARBEAU. No; we haven't.

Mr. SIMON. Did you know that Irving Swaab had a long police record?

Mr. BARBEAU. I didn't know that.

Mr. SIMON. What about a man named Morton Shuster? Have you done business with him?

Mr. BARBEAU. Never heard of the man; never met him.

Mr. SIMON. You don't know whether you did business with Pioneer Construction Co.?

Mr. BARBEAU. No; I will have to check that, sir.

Mr. SIMON. You had a girl working for you named Doris Haydon?

Mr. BARBEAU. That is correct.

Mr. SIMON. What were her duties?

Mr. BARBEAU. Well, her duties were passing on loans. She was originally hired to take care of investigation, and she was manager of the investigation.

Mr. SIMON. Manager of investigations?

Mr. BARBEAU. That is, all types of loans, and she gained considerable experience in that way. We had need of someone to pass on credit so we gave her an opportunity and gave her so much authority to pass on those. She was primarily—she passed on FHA loans altogether because we had that separate from our other loan category.

Mr. SIMON. She married a man named Helies.

Mr. BARBEAU. Yes.

Mr. SIMON. Do you know him?

Mr. BARBEAU. Just casually. I don't know him too well.

Mr. SIMON. Have you ever done business with him?

Mr. BARBEAU. No.

Mr. SIMON. Did you know anything about his background?

Mr. BARBEAU. Well, not until we heard later that some information came to our attention. I don't know all the particulars about it.

Mr. SIMON. Did you know that he was in this home-modernization business?

Mr. BARBEAU. Well, the first time I met him he was with Donnegan Sales Co., I think, but they didn't generate too much paper. We just had them for a short time. I think I could count all the dealers we had on one hand.

Mr. SIMON. Are there any people in your bank other than Shepherd who have taken money for putting through these loans?

Mr. BARBEAU. That is the only person I know of.

Mr. SIMON. He is the only one you know of?

Mr. BARBEAU. Yes.

Mr. SIMON. Are you sure of that?

Mr. BARBEAU. Yes.

Mr. SIMON. I am sorry—

Mr. BARBEAU. Nothing else has come to my attention.

Mr. SIMON. What precautions does your bank take on seeing to it that that doesn't happen?

Mr. BARBEAU. Well, you have got to place some reliance on your employees. When something that way happens, we just simply talk to all of them, you know, and instruct them. Of course, we won't tolerate that sort of thing. When we hire our employees we usually check them up pretty well, you know, from past experience, and so forth, that way.

Mr. SIMON. Of all the companies that have been involved here today, I think with only one exception, they all bank, or they all discounted their paper at your bank. Is that purely a coincidence or do you think you were a little more lenient?

Mr. BARBEAU. I think that is just a coincidence.

Mr. SIMON. Purely coincidence?

Mr. BARBEAU. Yes.

Mr. SIMON. You don't think——

The CHAIRMAN. I don't want you to think we are singling your bank out. I do want to say I think you have been a little careless in handling this paper. I think others are involved equally; maybe not equally, but others are involved. We have found that true throughout the United States.

Mr. BARBEAU. May I have the file back?

The CHAIRMAN. Yes.

Mr. DINKINS. Mr. Barbeau, do you have any idea how much money your bank has loaned in the Detroit area under this FHA title I?

Mr. BARBEAU. Yes, sir. I have the figures right here.

The CHAIRMAN. What is the total?

Mr. BARBEAU. Since the inception of FHA—do you want the volume?

The CHAIRMAN. Yes; total you have loaned since the inception of FHA.

Mr. BARBEAU. 208,116 deals.

The CHAIRMAN. 208,000 deals.

Mr. BARBEAU. 208,000——

The CHAIRMAN. Individual loans.

Mr. BARBEAU. Yes, \$102,091,658.03.

The CHAIRMAN. Thank you, sir.

Are Mrs. Ruth Stokes or Jack Chisik here yet?

(No response.)

The CHAIRMAN. I understand Jack Chisik will be here in a half-hour, Mr. Counsel tells me. Is Mrs. Ruth Stokes here?

(No response.)

The CHAIRMAN. Is Mrs. Mary Galler here?

(No response.)

The CHAIRMAN. Is Marie Halbeisan of Gibraltar Village here?

(No response.)

The CHAIRMAN. Is Daniel Pintamo of Pontiac, Mich., here?

Mr. PINTAMO. Yes, sir.

The CHAIRMAN. You may be sworn, please.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF DANIEL PINTAMO, PONTIAC, MICH.

Mr. PINTAMO. I do.

The CHAIRMAN. Thank you, sir.

Please be seated and give the reporter your name for the record.

Mr. PINTAMO. Daniel Pintamo, 1530 Joslyn Road, Pontiac, Mich.

Mr. SIMON. I still didn't hear you.

Mr. PINTAMO. Daniel Pintamo, 1560 Joslyn.

Mr. SIMON. Do you own your own home there?

Mr. PINTAMO. I am buying it.

Mr. SIMON. You are buying it on a contract; is that right?

Mr. PINTAMO. A contract for the materials.

Mr. SIMON. Did you buy a home modernization job recently?

Mr. PINTAMO. I bought——

Mr. SIMON. I can't hear you if you don't talk into the microphone.

Mr. PINTAMO. I bought material in 1952.

Mr. SIMON. In 1952?

Mr. PINTAMO. Yes.

Mr. SIMON. Whom did you buy it from?

Mr. PINTAMO. Firestone Construction Co.

Mr. SIMON. The salesman came out to sell it to you?

Mr. PINTAMO. Yes, sir.

Mr. SIMON. What did he tell you when he came out?

Mr. PINTAMO. The first time he came out, I didn't sign anything, or didn't want to build.

Mr. SIMON. I still can't hear you. I am sorry.

Mr. PINTAMO. The first time he came out I didn't sign anything or didn't want anything to build. That was in March of 1952.

Mr. SIMON. What did he tell you when he came out?

Mr. PINTAMO. He said they were working on the Detroit Construction Co. They would either put up the building or supply the material.

Mr. SIMON. They were working for what company?

Mr. PINTAMO. Firestone.

Mr. SIMON. Did you have a building?

Mr. PINTAMO. A temporary home.

Mr. SIMON. What do you mean by a temporary home?

Mr. PINTAMO. It was a temporary home until I could get the other one.

Mr. SIMON. What was it?

Mr. PINTAMO. It was a three-room home.

Mr. SIMON. A three-room home?

Mr. PINTAMO. On the property.

Mr. SIMON. On this property. He came out and visited you there?

Mr. PINTAMO. Yes.

Mr. SIMON. What did he tell you?

Mr. PINTAMO. He told me he would supply me all the building materials to put up a home.

Mr. SIMON. Did you make a deal with him?

Mr. PINTAMO. Not the first time he came out, but I believe he came out a week later. There were two of them.

Mr. SIMON. What happened when he came out the second time?

Mr. PINTAMO. He convinced me that he was the man to do business with.

Mr. SIMON. What did he say to convince you?

Mr. PINTAMO. He said he would supply everything for me through this FHA.

Mr. SIMON. He would supply everything through FHA?

Mr. PINTAMO. He would supply the material for this building.

Mr. SIMON. Did he tell you how much it would cost?

Mr. PINTAMO. The material?

Mr. SIMON. Yes.

Mr. PINTAMO. I have got the papers here.

Mr. SIMON. How much?

Mr. PINTAMO. I have got the papers here.

Mr. SIMON. Could we see them?

This says they were going to supply the blocks for a 30 by 20 house.

Mr. PINTAMO. Yes, sir.

Mr. SIMON. And the windows and doors. Then it says:

This is a title I FHA contract, first payment to start 45 days after completion of the job.

Is that right?

Mr. PINTAMO. That is right.

Mr. SIMON. What work were they going to do besides supplying—

Mr. PINTAMO. Just supply the materials.

Mr. SIMON. Just supply the blocks and doors?

Mr. PINTAMO. Blocks, doors, windows, and roof.

Mr. SIMON. For \$790?

Mr. PINTAMO. Yes.

Mr. SIMON. Was there any house there this was going to be used in, or was this to build a new house?

Mr. PINTAMO. That is a new house.

Mr. SIMON. Then what happened?

Mr. PINTAMO. About 4 days later a shipment of lumber come in, and 1-inch boards, and only half of them, I would say, and 2 by 4's for the rafters, when I specified 2 by 6's.

Mr. SIMON. What else?

Mr. PINTAMO. That is all that came. I waited for quite a while, and kept calling up to this Firestone Construction, that we weren't getting any more material out and we didn't want to start with just part of the material.

Mr. SIMON. How much material did you get?

Mr. PINTAMO. Well, it is marked on that white slip of paper.

Mr. SIMON. How much?

Mr. PINTAMO. Well, all except the front window at that time, and one-half of the roof.

Mr. SIMON. All except one window and half of the roof?

Mr. PINTAMO. Yes.

Mr. SIMON. Did you build the house then?

Mr. PINTAMO. I built the house.

Mr. SIMON. Are you living in it now?

Mr. PINTAMO. Yes, sir.

Mr. SIMON. Did you pay the notes?

Mr. PINTAMO. I am paying them off.

Mr. SIMON. Are you up on your notes?

Mr. PINTAMO. Yes, sir.

Mr. SIMON. Did they give you \$790 worth of materials?

Mr. PINTAMO. They didn't give all the material that was supposed to be there.

Mr. SIMON. Why?

Mr. PINTAMO. I don't know.

Mr. SIMON. How is that?

Mr. PINTAMO. I don't know. We kept calling them.

Mr. SIMON. Did you ever ask them? Did they ever tell you why?

Mr. PINTAMO. No, they didn't. They said, "We will get them." Every time we called they said we would get it.

Mr. SIMON. How long ago was this now?

Mr. PINTAMO. That was in 1952, or March 1952, the end of March.

Mr. SIMON. Are you still waiting for the rest of the materials?

Mr. PINTAMO. No, I bought a little bit every week on my check.

Mr. SIMON. Did anybody ever tell you you couldn't get one of these loans to build a new house with?

Mr. PINTAMO. No.

Mr. SIMON. You didn't know they were only to modernize or repair houses?

Mr. PINTAMO. No.

Mr. SIMON. How big a house is this you built?

Mr. PINTAMO. It is 24 by 30.

Mr. SIMON. How many rooms?

Mr. PINTAMO. Four rooms.

Mr. SIMON. All on one floor?

Mr. PINTAMO. Yes.

Mr. SIMON. You built it yourself with this material?

Mr. PINTAMO. That is right.

Mr. SIMON. Did you sign an FHA application?

Mr. PINTAMO. That is what I am trying to figure out. I don't believe I did.

Mr. SIMON. You didn't sign one?

Mr. PINTAMO. I don't believe I did. That was the only paper I seen was that pink one right there.

Mr. SIMON. This is a contract with the Firestone?

Mr. PINTAMO. Yes.

Mr. SIMON. But in order to get an FHA loan somebody had to sign an application and somebody had to say that the money was going to be used to repair or modernize an existing house.

Mr. PINTAMO. I didn't sign any papers.

Mr. SIMON. You say you didn't sign any?

Mr. PINTAMO. No.

Mr. SIMON. Do you know who did?

Mr. PINTAMO. No.

Mr. SIMON. What bank handled this?

Mr. PINTAMO. Industrial National.

Mr. SIMON. Industrial National Bank. And you say you never signed an FHA application?

Mr. PINTAMO. I didn't sign it.

Mr. SIMON. You didn't?

Mr. PINTAMO. I am positive I didn't sign it.

Mr. SIMON. What is that?

Mr. PINTAMO. I am positive I didn't sign any other paper besides that for that contract.

Mr. SIMON. Did you ever sign a completion certificate saying the job had been completed satisfactorily?

Mr. PINTAMO. No.

Mr. SIMON. You didn't?

Mr. PINTAMO. No. I understand that was signed by someone else.

Mr. SIMON. Who signed that?

Mr. PINTAMO. I don't know who signed it. I have an idea that was signed by somebody else. Otherwise FHA wouldn't go through with it.

Mr. SIMON. What gave you the idea it was signed by somebody else?

Mr. PINTAMO. I have the box full of payments.

Mr. SIMON. Just because you got the box for the payment?

Mr. PINTAMO. Yes, sir.

Mr. SIMON. Did you ever inquire as to who signed it?

Mr. PINTAMO. I don't believe so.

Mr. SIMON. Did you ever go down to the bank and ask them to look at the paper to see whether it was your signature?

Mr. PINTAMO. I wrote to the bank once and I wanted—what was it—I wrote to the bank about it anyway. I wanted to find out if this Firestone Construction Co.—

Mr. SIMON. What did you say to the bank?

Mr. PINTAMO. I wanted to know if this was a fly-by-night organization.

Mr. SIMON. A what?

Mr. PINTAMO. Fly-by-night organization.

Mr. SIMON. What did your bank tell you?

Mr. PINTAMO. I don't remember.

Mr. SIMON. You don't remember what they told you?

Mr. PINTAMO. No.

The CHAIRMAN. Thank you very much.

Now I am going to recess in a moment for 5 minutes. Then we are coming back and hear one more witness today. Then we are going to convene at 9:30 tomorrow morning—not 10 o'clock but 9:30. The names of the witnesses I am going to now read will come back tomorrow and be here at 9:30.

Our first witness tomorrow will be Joyce A. Schnackenburg and then pretty much in this order: Joyce A. Schnackenburg, Fred W. Knecht, Jerome Kaufman, Harry Colton, and Mrs. Ruth Stokes and Jack Chisik, if we can find them, Marie Halbeisan, Mrs. Mary S. Galler, and Wallace Helies, if we can find him, Dominick Keno Gertinisan, and Isal Crouther, of 3660 Moore Street, Inkster, Mich., and also the representative of the National Bank of Detroit. They have some papers that we asked for.

We may have more witnesses tomorrow in addition to the ones that I have just mentioned, but we will start in at 9:30 in the morning with the witnesses that I have just named, and if I have left anyone out that is under subpena, they will know it and they are to be here.

We are now going to take a 5-minute recess and then we are going to hear Mr. Saul Silberman, of Baltimore, Md., in respect to three projects—Uplands Apartments, Fairfax Gardens, and Meade Heights.

Mrs. Helies, I wish you would get in touch with your husband and ask him to be here tomorrow and report back in the morning. We will now take a 5-minute recess, at which time we will hear Mr. Silberman, who will be our last witness.

(Short recess taken.)

The CHAIRMAN. The committee will please come to order.

Our first witness will be Mr. Silberman of 4625 Edmondson Avenue, Baltimore, Md.

Will you be sworn, Mr. Silberman?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SILBERMAN. I do.

The CHAIRMAN. Thank you.

You may proceed, Mr. Counsel.

**TESTIMONY OF SAUL SILBERMAN, UPLANDS APARTMENTS, BALTI-  
MORE, MD., ACCOMPANIED BY A. HERMAN SISKIND AND CARL L.  
SHIPLEY, COUNSEL, AND SIDNEY G. SPERO, ACCOUNTANT**

Mr. SIMON. Mr. Silberman, were you formerly an employee of the Federal Housing Administration?

Mr. SILBERMAN. I was.

Mr. SIMON. During what period of time were you employed by FHA?

Mr. SILBERMAN. I believe it was 1936 or 1937.

Mr. SIMON. When did you leave?

Mr. SILBERMAN. Around the same time. I was there for a short time, a year and a half or 2 years.

Mr. SIMON. During that period of time what was your salary?

Mr. SILBERMAN. \$2,600 a year.

Mr. SIMON. \$2,600 a year?

Mr. SILBERMAN. That is right.

Mr. SIMON. When you left FHA you went into the building business?

Mr. SILBERMAN. That is right.

Mr. SIMON. Building under FHA?

Mr. SILBERMAN. Partly.

Mr. SIMON. Now, are you connected with the Uplands Apartments project?

Mr. SILBERMAN. I am.

Mr. SIMON. There were two Uplands projects, weren't there?

Mr. SILBERMAN. That is right.

Mr. SIMON. The first Uplands project is owned by Uplands Apartments, Inc.; is that right?

Mr. SILBERMAN. That is right.

Mr. SIMON. Who are the stockholders of Uplands Apartments, Inc.?

Mr. SILBERMAN. Ralph Dichiaro.

Mr. SIMON. That is D-i-c-h-i-a-r-o?

The CHAIRMAN. I think we had better identify the gentlemen on your right and left. They are lawyers with you?

Mr. SISKIND. That is right.

The CHAIRMAN. Will you give your names, please?

Mr. SISKIND. A. Herman Siskind, from Baltimore.

Mr. SHIPLEY. Carl L. Shipley, from Washington.

The CHAIRMAN. Thank you.

You may proceed.

Mr. SIMON. You were telling us, Mr. Silberman, who the stockholders were of Uplands Apartments, Inc.

Mr. SILBERMAN. Uplands Apartment, Inc., all the stock is owned by Uplands, Inc., a construction company.

Mr. SIMON. The stock of Uplands Apartments, Inc., is owned by Uplands, Inc.?

Mr. SILBERMAN. That is right.

Mr. SIMON. Uplands, Inc., was the construction company?

Mr. SILBERMAN. That is right.

Mr. SIMON. Who owns the stock in Uplands, Inc.?

Mr. SILBERMAN. Ralph Dichiaro.

Mr. SIMON. That is D-i-c-h-i-a-r-o; is that right?

Mr. SILBERMAN. Excuse me a moment, sir. I want to make sure I am giving the correct answers.

(There was a conference between Mr. Silberman and Counsel Siskind.)

Mr. SILBERMAN. I beg your pardon, sir, Ralph DeChario, you asked me how to spell his name?

Mr. SIMON. Yes.

Mr. SILBERMAN. D-e-C-h-a-r-i-o.

Mr. SIMON. You and he owned 50 percent except a couple of shares of your stock is in the name of your attorney?

Mr. SILBERMAN. That is correct.

Mr. SIMON. What was the capital stock of Uplands Apartments, Inc.? \$1,000?

Mr. SILBERMAN. That is right.

Mr. SIMON. And is \$2,000 the capital stock of Uplands, Inc.?

Mr. SILBERMAN. I want to check this with our accountant, if you don't mind.

The CHAIRMAN. Why don't you move up here, please, to the table and be identified?

Mr. SPERO. My name is Sidney G. Spero, New York City.

The CHAIRMAN. You are a——

Mr. SPERO. Certified public accountant.

The CHAIRMAN. For Mr. Silberman?

Mr. SPERO. Yes.

Mr. SIMON. Was the capital stock of Uplands, Inc., \$2,000?

Mr. SILBERMAN. \$5,000.

Mr. SIMON. How big a project did Uplands Apartments, Inc., build?

Mr. SILBERMAN. They built a few. You mean the first one? I would like to get your question clear.

Mr. SIMON. Upland Apartments, Inc.

Mr. SILBERMAN. Uplands Apartments, Inc., the commitment was \$3,683,000. There was an additional commitment added to it of \$59,200, making a total of \$3,742,200.

Mr. SIMON. How big was the building? How many apartments?

Mr. SILBERMAN. 512 units.

Mr. SIMON. 512 apartments.

What was the cost to the construction company of building the building?

Mr. SILBERMAN. I would like to answer that this way, Mr. Simon, if you don't mind. We built the building and then we converted it at completion making a total cost of——

Mr. SIMON. What was the cost of the building as called for by the plans and specifications that you gave FHA and on which they issued their commitment?

Mr. SILBERMAN. \$3,505,815.64.

Mr. SIMON. Does that include the interest during construction?

Mr. SILBERMAN. No. There was \$175,944 retained for carrying charges by the holding company.

Mr. SIMON. Is \$3,505,000 the actual amount of money that the construction company paid out?

Mr. SILBERMAN. These are the figures that have been given to me by my accountant.

Mr. SIMON. That wasn't my question. My question is whether \$3,505,000 is the actual amount of money the construction paid out for labor and materials for building the job?

Mr. SILBERMAN. And acquiring the land?

Mr. SIMON. And acquiring the land?

Mr. SILBERMAN. That is right.

Mr. SIMON. That is the actual amount they paid out?

Mr. SILBERMAN. Yes, sir.

Mr. SIMON. Does that include the architect's fees?

Mr. SILBERMAN. Everything.

Mr. SIMON. Does that include any fees to you?

Mr. SILBERMAN. No. I received no fees.

Mr. SIMON. Any salary?

Mr. SILBERMAN. Salary—well, I was on a yearly salary at the time of \$450 a week.

Wait a minute now. Correction, please.

Mr. SIMON. Don't you know, Mr. Silberman, how much this building cost you?

Mr. SILBERMAN. What is your question?

Mr. SIMON. Don't you know how much it cost to build the building?

Mr. SILBERMAN. Mr. Simon, I have the figures in front of me, and I am answering from the figures. You wouldn't expect me to recall the exact amount of the figures, would you?

Mr. SIMON. I am trying to find out how much you had to pay out to people.

Mr. SILBERMAN. I answered. That is the exact amount.

Mr. SIMON. Now you tell me it included \$22,500 a year you paid yourself. I am trying to find out—

Mr. SILBERMAN. Wouldn't you consider that as cost?

Mr. SIMON. No; I wouldn't.

Mr. SILBERMAN. If I am employed and actively engaged in the construction company that has men on their payroll, it is certainly part of their cost.

Mr. SIMON. You owned the project, didn't you?

Mr. SILBERMAN. I was part—I know you want to be fair to me, Mr. Simon, don't you?

Mr. SIMON. Of course.

Mr. SILBERMAN. I will answer your questions one at a time. I say to you that any construction company has a perfect right to consider as actual cost any employee they have on their payroll, if they are actually engaged in building the building.

Mr. SIMON. You can do anything you want with your money, but I am merely trying to find out how much you had to pay to others to build this building, not including what you paid yourself.

The CHAIRMAN. Mr. Silberman, you own the project, do you not?

Mr. SIMON. Part of it.

The CHAIRMAN. I mean the company owns it.

Mr. SIMON. You and DeChario each own one-half interest in it?

Mr. SILBERMAN. I am sorry, Mr. Simon. I think the cost of a building is the material and the payroll of any building—

The CHAIRMAN. It would be excepting that you own it. It is yours. That is the reason. You own it. It is yours. Of course, if you build it for somebody else, why, yes.

Mr. SILBERMAN. These are two different corporations.

The CHAIRMAN. But you own all the stock in both, just like taking money out of one pocket and putting it in the other.

Mr. SILBERMAN. I own part of it.

The CHAIRMAN. You own half of both?

Mr. SILBERMAN. That is right.

The CHAIRMAN. We are talking about the corporations, not you personally.

Mr. SIMON. Let us forget definitions. What we are trying to find out is, first, how much money you got out of the Government-insured mortgage, and, second, how much money you had to pay out to build the building, and how much you had left over when it was built.

Mr. SILBERMAN. According to the actual figures off the books of the construction company, Saul Silberman, Ralph DeChario, together, drew \$15,600.

Mr. SIMON. Fifty thousand dollars?

Mr. SILBERMAN. Fifteen thousand six hundred dollars for services performed for the construction company.

Mr. SIMON. How much money did the construction company pay out in building this building, actually pay out, to people other than you and DeChario?

Mr. SILBERMAN. \$3,505,815.64, less this figure of the way you are asking the question—less this figure of \$15,600, making a net figure of about—

Mr. SPERO. About \$3,489,000.

Mr. SIMON. Does that include the cost of the land?

Mr. SILBERMAN. Yes, sir.

Mr. SIMON. Who did they buy the land from?

(There was a conference between Mr. Silberman and his counsel.)

The CHAIRMAN. Don't you know who they bought the land from?

Mr. SILBERMAN. I am sorry. I have to get this information. We are in a great number of projects. I want to give you the actual facts. I wish you would permit me to make sure before I answer. I intend to tell the exact truth. I would like to add at this particular point that I was asked to come to Washington, I came voluntarily, testified for 2½ hours, gave my full cooperation, and I intend to cooperate fully.

The CHAIRMAN. We are asking the same questions today we did at Washington.

Mr. SILBERMAN. I know. I didn't get it from memory.

The CHAIRMAN. What did you think we wanted to see you for? You knew we wanted to know the cost of the land and building.

Mr. SILBERMAN. You certainly didn't want me to remember the figures, did you?

The CHAIRMAN. I say this with a big smile. You have three gentlemen. You are well fortified. I say that with a smile.

Mr. SILBERMAN. They are here to give you the information.

The CHAIRMAN. We want to be nice as we can to you, and want to get the facts. That is all we want.

Mr. SILBERMAN. You will get it 100 percent.

Mr. SIMON. The question is, Who did you buy the land from? Was it a fellow named Silberman?

Mr. SILBERMAN. Just a minute, Mr. Simon. I am asking the counsel how it is set up.

Mr. SIMON. I wanted to help you out.

Mr. SILBERMAN. I don't want your help. You let me take care of myself.

The CHAIRMAN. Listen: We will ask the questions and you will answer them.

Mr. SILBERMAN. I will do it, sir, respectfully.

The CHAIRMAN. We will be very respectful to you and we expect you to do the same thing toward us. Let us get that straight.

Mr. SILBERMAN. I shall, sir.

(There was a conference between Mr. Silberman, Mr. Spero, and Mr. Siskind.)

Mr. SIMON. Who did you buy the land from?

Mr. SILBERMAN. We acquired it from the Eastport Manor Co. Eastport Manor was the name. That was controlled by us.

The CHAIRMAN. In other words, you bought the land from yourself, didn't you? And you knew you bought the land from yourself when you were making all that fuss a minute ago?

Mr. SILBERMAN. I am not doing any such thing, Senator. I am giving you the technical and legal manner in which we acquired it. Isn't that what you want?

The CHAIRMAN. Yes, but we don't want nonsense. We asked you who you bought the land from. You knew you bought it from yourself, a corporation that you owned.

Mr. SISKIND. Senator, he so testified at the executive session.

Mr. SIMON. Of course. That is the basis of the information I have.

Mr. SISKIND. He so testified. He certainly had no intention—

The CHAIRMAN. We want him to testify in public here today.

Mr. SISKIND. That is right. He was trying to get the exact name of the corporation which they control that actually held the title to it. It was definitely from himself.

Mr. SIMON. How much did Eastport Manor pay for this land?

(There was a conference between Mr. Siskind and Mr. Silberman.)

Mr. SILBERMAN. We acquired 126 acres June 4, 1946, for \$227,000—\$242.26.

Mr. SIMON. How much of the 126 acres went into this project?

(There was a conference between Mr. Siskind and Mr. Silberman.)

The CHAIRMAN. Your C. P. A. can answer some of these questions if you do not have the information. We would be very happy to have him answer for you on anything that is technical as that.

Mr. SISKIND. Can we make the response, Senator?

The CHAIRMAN. Some of them, yes, cases such as this he can make the response.

Mr. SILBERMAN. Senator, I am not trying—

The CHAIRMAN. The record speaks for itself.

Mr. SILBERMAN. I am not trying to avoid questions. I want to give you it exactly.

Mr. SPERO. The testimony was given in executive session.

The CHAIRMAN. Yes. We don't hear a witness until we have heard him in executive session. We have heard you. That is why we get a little bit uneasy or impatient up here when we know what the answer is, and we know you know what the answer is, because we have already heard it in executive session. Now, we want the answers in

public. The public are entitled to know these things as well as we are in executive session.

Mr. SPERO. Will you repeat the question, please?

Mr. SIMON. The question was, How many acres went into this project?

Mr. SPERO. 28.92.

Mr. SIMON. What was the proportionate cost of the 28 acres that went into the project?

The CHAIRMAN. I think since the accountant is going to give answers we had better swear you.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SPERO. I do.

The CHAIRMAN. Thank you, sir.

Mr. SPERO. These 28-acres-plus were valued at \$180,000.

Mr. SIMON. That wasn't my question. My question was what was the proportionate cost of the 28 acres that went into this project.

Mr. SPERO. It was carried on their individual books at \$29,946.84.

Mr. SIMON. Is that the proportionate cost of these 28 acres?

Mr. SPERO. That is right.

Mr. SIMON. How much did they sell it to Upland Manor for?

Mr. SPERO. It was sold to Uplands, Inc., for \$180,000.

Mr. SIMON. That is \$151,000 more than they paid for it; is that correct?

Mr. SPERO. That is correct.

Mr. SIMON. When you gave us a minute ago the figure of \$3,489,000 as the cost of the building that included the land at a figure of \$151,000 more than they paid for the land; is that right?

Mr. SPERO. That is correct.

Mr. SILBERMAN. Senator, may I explain an answer after I have answered it, or my accountant?

The CHAIRMAN. Yes; we want to be perfectly fair with you.

Mr. SIMON. I can only question one man at a time.

Mr. SILBERMAN. I am not a lawyer.

The CHAIRMAN. We want the facts.

Mr. SILBERMAN. You are packing me up for something I shouldn't be responsible to. Do you mean I should address you?

Mr. SIMON. I thought you wanted your accountant to answer these questions.

Mr. SILBERMAN. I asked permission to explain his answer; is that all right?

Mr. SIMON. Which answer are you explaining?

Mr. SILBERMAN. You asked him how much he sold it to the company for. I would like to explain that.

Mr. SIMON. Is the answer wrong?

Mr. SILBERMAN. It isn't wrong, but it needs explanation.

Mr. SIMON. What is the explanation?

Mr. SILBERMAN. The explanation is we had acquired a large tract of property which we had improved with utilities, and built alongside of it approximately 400 houses which changed the entire value of the land. In other words, the price at which we sold the lands to the company was the price we could have sold it to anybody at that particular time.

The CHAIRMAN. We don't question that.

Mr. SILBERMAN. I know, but the public might question it. I know you like to be fair, but these questions you said are for the benefit of the public. I think I have a right to explain to the public the same as investigators do to the public. That is why I would like to explain it.

The CHAIRMAN. Remember this, we know that.

Mr. SILBERMAN. The public doesn't know it.

The CHAIRMAN. When you got all through you owned this property. You still own it. It was your land; you still own it; you own the property. We understand all that. We are not trying to put any words in your mouth at all.

Mr. SILBERMAN. Senator, you said the public has a right to know all the facts. I am trying to give the public all the facts.

The CHAIRMAN. What I said was, we listened to all your testimony in executive session, and now we want you to, in public; we are going to ask you the same questions we did in executive session. What you are trying to say is that you bought this land, and then you put up some houses around it, which increased the value of it. We do not question that.

Mr. SILBERMAN. Plus utilities. I think it is perfectly right of me to explain it; isn't it?

The CHAIRMAN. We don't question that at all, excepting you owned it to begin with, and you still own it. Therefore, you can't make a profit on selling something to yourself.

Mr. SIMON. And accepting—

Mr. SILBERMAN. There is a great deal of explanation in between there.

Mr. SIMON. We asked you what it cost you, and your answer included \$151,000 that you had paid yourself as profit in selling the land from one company to another, which was not a truthful answer to the question we asked you.

Mr. SILBERMAN. I deny that, Mr. Simon. I will answer all things truthfully. I can slant any question in anyway to make—

The CHAIRMAN. We don't want to get into any argument. Either answer the questions or say you don't want to.

Mr. SILBERMAN. I answer all questions. Mr. Simon accused me of telling an untruth.

The CHAIRMAN. We don't want any arguments from you at all, Mr. Silberman. We are going to prove with your executive session, and the facts here, that you built these projects, that the total cost of them, everything included, was X amount of money more, or less, than the total amount of the mortgage proceeds.

Mr. SILBERMAN. That is fine.

The CHAIRMAN. Then we are going to show what you did with the money, part of it. That may help you now in figuring out the reason for your questions.

Mr. SILBERMAN. May I ask you this, sir, if counsel says to me that I didn't make a true statement do I have a right to answer it?

Mr. SIMON. What I would like you to tell me now, if you will, is how much it cost you to build this building, disregarding intercorporate transactions, disregarding transactions between yourselves.

Mr. SILBERMAN. We gave—

Mr. SIMON. How much did it cost to build the building?

Mr. SILBERMAN. Mr. Spero will answer that, my accountant.

The CHAIRMAN. He will only answer if we wish him to answer. The question is directed to you. Is the reason you want him to answer because he has the information and you do not?

Mr. SILBERMAN. He has the exact information. He compiled it. I would be happier if you would permit him to do it.

The CHAIRMAN. You may answer the question.

Mr. SPERO. Subtracting an additional \$150,000 substantially from the \$3,489,000 that was previously given, would net that off at \$3,339,400.

Mr. SIMON. Are there any other costs included in that \$3,339,000 that went to Mr. Silberman, or any company that he and his partner controlled?

Mr. SPERO. None that I can think of.

Mr. SIMON. Can you think of any, Mr. Silberman?

Mr. SILBERMAN. Would you mind repeating that question?

Mr. SIMON. Are there any other costs included in that figure that you or your partner got either directly or through one of these corporations you own?

Mr. SILBERMAN. Any costs that we received? I thought we were talking about what we paid out. I don't quite follow you, sir.

The CHAIRMAN. Ask the question again, please.

Mr. SIMON. Your accountant now tells us that the cost of the building was \$3,339,000, including the cost of the lands, and I am trying to find out whether any part of that \$3,339,000 went to you?

Mr. SILBERMAN. No, sir.

Mr. SIMON. You are certain of that?

Mr. SILBERMAN. As far as I can see in any way at all, unless there is some technicality, I would say that is correct.

Mr. SIMON. Who would know whether you got any of that money?

Mr. SILBERMAN. The books, the accountant would know. He tells me there isn't.

Mr. SIMON. He said he didn't know.

Mr. SILBERMAN. He didn't say that.

Mr. SPERO. I said I didn't recollect any situation whereby he would get any additional amounts of money whatsoever.

Mr. SIMON. Who can tell us whether he did or didn't get any more money?

Mr. SILBERMAN. That is correct, as you have it.

Mr. SIMON. You are certain of that?

Mr. SILBERMAN. Yes.

Mr. SIMON. Were there any other costs in connection with this building such as interest and taxes that aren't included in the \$3,339,000?

Mr. SPERO. Do you want me to answer that?

Mr. SIMON. Do you know?

Mr. SPERO. Yes.

Mr. SIMON. What were they?

Mr. SPERO. There was carrying charges provided for of \$175,944.

Mr. SIMON. Who was that paid to?

Mr. SPERO. That was—those were moneys retained by—

Mr. SIMON. That wasn't my question. My question was, Were there any other costs that you paid out, such as interest, not what you held back?

Mr. SPERO. I cannot answer that; no, sir.

Mr. SIMON. You don't know?

Mr. SPERO. That is right. The best answer I can give you on that is that Uplands Apartments, Inc., out of the mortgage proceeds, retained a certain amount of money as set up for carrying charges, including interest. The way the books are developed, according to the regulations required by the FHA, we do not have a means at this time of determining what was exactly spent for that, or for those items.

Mr. SIMON. Does anybody know how much of that \$175,000 was spent?

Mr. SPERO. Not at this moment; no, sir. I would say substantially most of it.

Mr. SIMON. What do you mean by most of it?

Mr. SPERO. Because in connection with the construction of a project they provided for a certain length of time in which to construct it. They provided for interest on that, taxes on that, and that money would go out.

Mr. SIMON. Every building has that. I am trying to find out how much was spent for that in this instance.

Mr. SPERO. I can't answer that because the books don't disclose it in that manner.

Mr. SIMON. Do you know, Mr. Silberman?

Mr. SILBERMAN. I don't know any more about the accounting than Mr. Spero at this time.

Mr. SIMON. Do you know of anybody who would know how much was spent for interest and carrying charges?

Mr. SILBERMAN. No, sir.

Mr. SIMON. Do your books reflect it?

Mr. SPERO. They certainly do.

Mr. SIMON. Why can't you tell from the books how much was spent?

Mr. SPERO. Because in the manner of keeping books all interests and taxes were charged off regardless of whether it was for carrying charges or in completion of the project in connection with the mortgage later on. In other words, there was no differentiation made or any setup as to the allocation of these carrying charges against the cost of the buildings.

Mr. SIMON. What is your guess as to how much of that \$175,000 was spent?

Mr. SPERO. \$175,000.

Mr. SIMON. \$175,000.

Mr. SPERO. I would say substantially pretty much all of it. I would guess at 75 to 90 percent. It is a pure guess. I don't like to guess. My whole training militates against that.

Mr. SIMON. I would agree with you except we are trying to find out how much this building cost, and you are the only ones that can tell us because we weren't there.

Mr. SPERO. Well, I have answered to the best of my ability.

Mr. SIMON. Well, then, this building cost somewhere between \$3,339,000 and \$3,514,000, excluding moneys they paid themselves; is that right?

Mr. SPERO. That is right. That is a fair statement.

Mr. SIMON. And that includes the cost of the land and the interest, and everything else?

Mr. SPERO. That is exactly correct.

Mr. SIMON. And the mortgage was \$3,742,000; is that right?

Mr. SPERO. \$3,742,200.

Mr. SIMON. And was there a premium on the mortgage?

Mr. SPERO. No, sir.

Mr. SIMON. No premium?

Mr. SPERO. No, sir.

Mr. SIMON. So the difference between the mortgage—the mortgage proceeds exceeded the cost of the building between—

Mr. SILBERMAN. I will have to interrupt you.

Mr. SIMON. I am sorry, but I was asking a question.

The CHAIRMAN. Let us finish the question, please.

Mr. SIMON. The mortgage proceeds exceeded the cost of the building by between \$228,000 and \$403,000; is that right?

Mr. SPERO. I don't think you are right on the \$400,000. I think the maximum—it runs somewhere around \$228,000.

Mr. SIMON. You said you didn't know how much of this—

Mr. SPERO. What are you adding back to that, \$175,000?

Mr. SIMON. Yes. I said somewhere between \$228,000 and \$403,000.

Mr. SPERO. Where did you get the \$403,000?

Mr. SIMON. I thought I heard you agree a minute ago that the total cost was between \$3,339,000 and \$3,514,000; is that right?

Mr. SPERO. I have the \$3,514,000. What was that other figure?

Mr. SIMON. \$3,339,000.

Mr. SPERO. That is right, closer, I would say, to the \$3,514,000. I think you might use that figure for practical purposes.

Mr. SIMON. But you don't know?

Mr. SPERO. I don't know; that is correct.

Mr. SIMON. All you can say with certainty is it is between those two figures?

Mr. SPERO. That is right.

Mr. SIMON. If that is true, the mortgage proceeds exceeded the cost by between \$228,000 and \$403,000?

Mr. SPERO. That is right.

Mr. SIMON. Mr. Silberman, how close were you to Clyde Powell?

Mr. SILBERMAN. Before we go into that question—

The CHAIRMAN. Answer the question, please.

Mr. SILBERMAN. How close?

The CHAIRMAN. I will give you a chance to make a statement.

How close were you to Clyde Powell?

Mr. SILBERMAN. Not any more than anybody else would be that had dealings with the FHA.

Mr. SIMON. That wasn't my question. My question was, How close were you to Clyde Powell?

Mr. SILBERMAN. I would say—

The CHAIRMAN. How often did you see him?

Mr. SILBERMAN. Very seldom.

Mr. SIMON. Very seldom?

Mr. SILBERMAN. Yes.

Mr. SIMON. Were you intimate with him at all?

Mr. SILBERMAN. No, sir.

Mr. SIMON. Virtually strangers?

Mr. SILBERMAN. I wouldn't say virtually a stranger, but we weren't social friends.

Mr. SIMON. Was it a very rare thing when you telephoned each other?

Mr. SILBERMAN. I don't think I telephoned him in the period of years, 4 or 5 times.

Mr. SIMON. Four or five times in a period of years?

Mr. SILBERMAN. Possibly something like that.

Mr. SIMON. Let us take February 9, 1952, at 11:46 a. m., you telephoned him from Miami, Fla.; if you only telephoned him 4 or 5 times you undoubtedly must remember what that conversation was about?

Mr. SILBERMAN. I would be a wizard if I could remember today, Mr. Simon. I don't even know whether I telephoned then. I wouldn't know. It might have been something that happened in our office I had to get some information on, and I called him. I certainly couldn't be expected to remember that, and I don't think you mean I should remember it.

Mr. SIMON. Do you have a telephone number in Miami, Miami 8-5777?

Mr. SILBERMAN. What year was that?

Mr. SIMON. February 9, 1952.

Mr. SILBERMAN. We rented a house for the season. I don't recall. We don't own a house; we rent there. That might have been the number of the house. I couldn't tell you whether it was or wasn't.

Mr. SIMON. Did you call him again on February 23, 1952, at 11:20 in the morning from that same Miami number?

Mr. SILBERMAN. I wouldn't know. I doubt it.

Mr. SIMON. You doubt it?

Mr. SILBERMAN. I doubt it. I don't say I didn't.

Mr. SIMON. You are not prepared to say you didn't?

Mr. SILBERMAN. It might be it wasn't rented. You know a telephone operator if you don't reach somebody will keep calling and calling, and try to get it. Was that the same day?

Mr. SIMON. No; 2 weeks later.

Mr. SILBERMAN. I beg pardon. I thought you said the first day.

Mr. SIMON. The first one was February 9, the second February 23.

Are you prepared to say you didn't call him on those 2 days?

Mr. SILBERMAN. I didn't say that. I said I have no recollection of it.

Mr. SIMON. How many times did you talk to Clyde Powell over the telephone?

Mr. SILBERMAN. I said I thought about 4 or 5 times.

Mr. SIMON. Four or five times?

Mr. SILBERMAN. It could be six times.

Mr. SIMON. Could it be 40 times?

Mr. SILBERMAN. No, sir.

Mr. SIMON. Are you saying unequivocally under oath it wasn't 40 times?

Mr. SILBERMAN. Yes, sir. Now—

Mr. SIMON. What is the maximum number of times you say you talked to Clyde Powell over the telephone?

Mr. SILBERMAN. Are you talking about a period of years?

Mr. SIMON. Yes.

Mr. SILBERMAN. You have got me. I said 4 or 5 times. That is what is in my memory. If it is more than that I am mistaken. That is all I can tell you.

The CHAIRMAN. Your answer is 4 or 5 times?

Mr. SILBERMAN. Yes.

Mr. SIMON. Are you prepared to say under oath it wasn't more than 4 or 5 times?

Mr. SILBERMAN. I answered by saying I think so. If it was more, it could be. I can't remember how many times I talked to a man in a period of 5 or 6 years.

Mr. SIMON. I am trying to find out from you under oath the maximum number of times you say you talked to Clyde Powell.

In fairness, I say to you I have Clyde Powell's telephone record.

Mr. SILBERMAN. I can see you reading, but I would be astonished if I called over a few times.

Mr. SIMON. My question to you—

Mr. SILBERMAN. I cannot answer it.

Mr. SIMON. What is the maximum number of times you talked to Clyde Powell on the telephone?

Mr. SILBERMAN. Now it could be, Mr. Simon, at times where there was some discussion going on about some interpretation or some administrative rule about it, I might have called him, he called me back, I called him, and I might call it once. It could be in a period of a week maybe eight times about the same matter. When I say 4 or 5 times, I mean 4 or 5 transactions. Maybe that would clear it up.

Mr. SIMON. Are you prepared to say under oath you didn't call him more than with respect to 4 or 5 different transactions?

Mr. SILBERMAN. Yes, sir.

Mr. SIMON. You are prepared to say it?

Mr. SILBERMAN. Yes, sir.

Mr. SIMON. Would a transaction be concluded within, say, a week?

Mr. SILBERMAN. Not necessarily.

Mr. SIMON. Over how long a period would the transaction go on?

Mr. SILBERMAN. You know it takes 6 months to get a commitment sometimes, most of the time.

Mr. SIMON. You are now saying you only talked to him with respect to 4 or 5 jobs?

Mr. SILBERMAN. That is all we had.

Mr. SIMON. I was just going to say that is all you had. How many times did you talk to Clyde Powell on the telephone?

Mr. SILBERMAN. I think I have answered that, Mr. Simon. You are asking me the same question over and over again.

Mr. SIMON. I have still not received the first answer, though.

Mr. SILBERMAN. I said to you that I thought I talked to him 4 or 5 times.

Mr. SIMON. I want a firm answer.

Mr. SILBERMAN. I will not answer it any differently.

Mr. SIMON. What is the maximum number of times you talked to Clyde Powell? You can fix a maximum?

Mr. SILBERMAN. No, I cannot. I said to you that I had—

Mr. SISKIND. He said he couldn't say.

Mr. SIMON. He can certainly fix a maximum. He can say he is certain it is not more than a certain number.

Mr. SILBERMAN. It is not more than a hundred times. Do you want it that way?

Mr. SIMON. That is the lowest number you can say with certainty?

Mr. SILBERMAN. I don't know what you are trying to get me to say, but I am certainly not going to tell you things that are not true. I can make an error, as well as you or anybody else. I am under the impression I talked to him very, very seldom. It could be, and I don't intend or expect to be a witness that can tell you what or how many times I talked to somebody in 1952. I think it is an unfair question.

Mr. SIMON. We didn't ask you that.

Mr. SILBERMAN. I am answering that way. I am going to defend myself.

Mr. SIMON. The question is, What can you say under oath is the maximum number of times you called him?

Mr. SILBERMAN. I don't know.

Mr. SIMON. You don't know?

Mr. SILBERMAN. No, sir.

The CHAIRMAN. The witness says he doesn't know. I think maybe we will just let the record stand there.

Mr. SIMON. How many times did you and Clyde Powell talk about gambling matters?

Mr. SILBERMAN. Gambling matters?

Mr. SIMON. Yes.

Mr. SILBERMAN. I would see Clyde Powell at the races, between Baltimore and Washington, possibly once a week, Saturday afternoon.

Mr. SIMON. Over how many periods of years?

Mr. SILBERMAN. Years?

Mr. SIMON. Over how many years?

Mr. SILBERMAN. I don't know—7, 8, 9, 10 years.

Mr. SIMON. Over 7 to 10 years you would see him once a week at the racetracks?

Mr. SILBERMAN. I wouldn't say—I said the most I would see him would be once a week. Maybe I wouldn't see him once a month, but I mean when I did see him I would see him usually on a Saturday afternoon.

Mr. SIMON. At the racetracks?

Mr. SILBERMAN. That is right.

Mr. SIMON. Did you ever do any gambling with him?

Mr. SILBERMAN. Gambling with him?

Mr. SIMON. Yes.

Mr. SILBERMAN. No.

Mr. SIMON. Did you ever pay any of his gambling debts?

Mr. SILBERMAN. No.

Mr. SIMON. Did you ever pay for any parimutuel tickets for him?

Mr. SILBERMAN. No.

Mr. SIMON. You are certain of that?

Mr. SILBERMAN. Positive.

Mr. SIMON. How many times did you see him at the racetracks in that 7- or 8-year period?

Mr. SILBERMAN. I answered you before that I would see him, when I did see him, on a Saturday.

Mr. SIMON. But how many—

Mr. SILBERMAN. There is a possibility I might have seen him 1 day during the week, but my memory says to me I would see him on Saturday afternoons.

Mr. SIMON. How many times during that 7- or 8-year period?

Mr. SILBERMAN. You are asking me a very unfair question. I don't know. It could be over a period of 10 years a hundred times, perhaps.

Mr. SIMON. That is fair enough. Is that your best recollection?

Mr. SILBERMAN. Yes, sir.

Mr. SIMON. About 10 times a year for 10 years?

Mr. SILBERMAN. Well, they only run races a couple of months a year in Maryland.

Mr. SIMON. Do you know what he called you about when he called you on October 12, 1953?

Mr. SILBERMAN. No, sir.

Mr. SIMON. That is less than a year ago.

Mr. SILBERMAN. I don't know.

Mr. SIMON. He called you. Do you have a number—

Mr. SILBERMAN. Did he get me?

Mr. SIMON. Do you have a number LO-6-3696?

Mr. SILBERMAN. Yes; that is my home number in Baltimore.

Mr. SIMON. That is your home?

Mr. SILBERMAN. Yes.

Mr. SIMON. What would he be calling you at your home for on October 12?

Mr. SILBERMAN. I don't even know if I spoke to him.

Mr. SIMON. You don't?

Mr. SILBERMAN. No.

Mr. SIMON. Did you?

Mr. SILBERMAN. I don't know.

Mr. SIMON. The telephone company doesn't charge unless the call is completed, do they?

Mr. SILBERMAN. He might have put a station call in and talked to my wife or son or somebody.

Mr. SIMON. Would your wife tell you if she talked to him?

Mr. SILBERMAN. Would she tell me?

Mr. SIMON. Yes.

Mr. SILBERMAN. Yes; she would.

Mr. SIMON. Why would Clyde Powell be calling your home and talking to your wife?

Mr. SILBERMAN. I don't know. I told you that. I said it could have happened. You said he got somebody. I said to you I don't know whether he got me or not. You are putting the answers in my mouth.

Mr. SIMON. Do you have a number WIL-3100?

Mr. SILBERMAN. No; WIL-53—at that time it was added to it. That is our office number.

Mr. SIMON. I suppose if I asked you about these calls to your office you wouldn't know what those were for, either?

Mr. SILBERMAN. No, sir. Nobody would expect me to remember that. How many times were there?

Mr. SIMON. Oh, there are a number of them.

Mr. SILBERMAN. You are inferring to the public that I had a hundred calls there. How many were there?

Mr. SIMON. I am asking you.

Mr. SILBERMAN. Can I ask you? Do I have the right to ask you?

Mr. SIMON. No.

Mr. SILBERMAN. I won't ask you then. I am not a lawyer. I am asking my rights as a citizen. If I don't have the right, I won't ask you.

Mr. SIMON. I am asking you how many times you called Clyde Powell, and I wasn't there.

Mr. SILBERMAN. Maybe I wasn't there. Maybe that is why they had to call me more often to get me.

The CHAIRMAN. You understand why we are asking many of these questions, do you not, is because Mr. Clyde Powell, who was the head man of the section 608 projects under which you built these projects, for many, many years was the top man, the head man. He has refused to testify before this committee on two occasions, and has hidden behind the fifth amendment. Therefore, we can't get any information from him at all. The records show that you called him on a number of occasions and he called you. You have already testified here now that you saw him possibly Saturdays at the racetracks.

Mr. SILBERMAN. I saw Mr.——

The CHAIRMAN. You were formerly employed by FHA when Mr. Powell was employed by FHA.

Mr. SILBERMAN. That is correct.

The CHAIRMAN. We have a lot of other information that I don't have time at the moment to tell you.

Mr. SILBERMAN. I will give you all the information which I——

The CHAIRMAN. I know you will.

Mr. SILBERMAN. My reputation is such that I am a truthful man. I am telling you everything that I know, but——

The CHAIRMAN. All we are trying to do is get the facts.

Mr. SILBERMAN. That is fine. I don't want an inference drawn to the public that I am trying to avoid anything because I am not. This is a public hearing, and I don't want it slanted to the public as if I am hiding something. I am very anxious to convey to the public that I am a truthful man.

Mr. SIMON. I know you are anxious to convey that.

Mr. SILBERMAN. You are very anxious to make it otherwise, and I am not going to let you do it if I can help it.

Mr. SIMON. I only want the truth from you.

Mr. SILBERMAN. You will get it.

Mr. SIMON. You said a moment ago that your dealings with Clyde Powell were no different than anybody else who dealt with FHA.

Mr. SILBERMAN. That is right.

Mr. SIMON. Is it your understanding that all the people who dealt with FHA called Clyde Powell evenings at his home?

Mr. SILBERMAN. It is possible. I don't know how he lives or how they live.

Mr. SIMON. You called him at home at night, didn't you?

Mr. SILBERMAN. How many times?

Mr. SIMON. I was about to ask you that.

Mr. SILBERMAN. I know. You are inferring it was a great many times.

Mr. SIMON. I was about to ask you.

Mr. SILBERMAN. You bring out there might have been twice during 5 years. I wouldn't say that is more than a casual acquaintance.

Mr. SIMON. Are you prepared to say under oath that you only called him at home twice in 5 years?

Mr. SILBERMAN. I am not prepared to say how many times I called him. I answered that before, and I will answer it again.

Mr. SIMON. I am only talking about calls to Clyde Powell's home. How many times did you call Clyde Powell at home?

Mr. SILBERMAN. I call him at home?

Mr. SIMON. At his home.

Mr. SILBERMAN. Right now, I can't remember. I might have called him in response to his call. If I am out of the office during the day and he might call and leave a message, considering the fact—

Mr. SIMON. Well—

Mr. SILBERMAN. Will you let me answer, Mr. Simon?

Mr. SIMON. Yes.

Mr. SILBERMAN. Considering the fact as the Senator says, he was the top man in the administration that handled billions of dollars, we considered it almost an order to return his call. I would have gone way out of my way to get him any time he called me.

Mr. SIMON. It just happens it is the other way around.

Mr. SILBERMAN. What do you mean by that?

Mr. SIMON. I have here that on October 4, 1953, at 8:38 at night you called Powell from your home, and you called him at his home, and the next morning he called you back at your home from his home.

Mr. SILBERMAN. Was there a call before that, before I called him during the day?

Mr. SIMON. Not that I know of.

Mr. SILBERMAN. It could happen, couldn't it?

Mr. SIMON. I am asking you. You are under oath, and you are—

Mr. SILBERMAN. You can't take isolated cases and make a story out of them.

Mr. SIMON. I am asking you—

Mr. SILBERMAN. I know what you are asking me, but I am answering truthfully, and tell you it could have been otherwise than what you are trying to infer.

Mr. SIMON. I am asking you what you called Clyde Powell about.

Mr. SILBERMAN. I am telling you I don't remember. Nobody else could expect me to remember. I guess it was some business pertaining to our business that I called him about.

Mr. SIMON. Are you sure it wasn't gambling business?

Mr. SILBERMAN. I am positive.

Mr. SIMON. If you are positive gambling business—

Mr. SILBERMAN. Because I never had any transactions with him regarding gambling. I wouldn't have any, and didn't have any.

Mr. SIMON. Can you tell me what you called Clyde Powell about on 8:30, October 4, 1953, calling from your home to his home?

Mr. SILBERMAN. I told you I didn't know, and I wouldn't be expected to know by any reasonable person.

Mr. SIMON. I didn't ask you if you would be expected to know. Do you know what you called him for?

Mr. SILBERMAN. No, sir.

Mr. SIMON. On October 12, 1953, at 11 in the morning he called you from his home to your home. What was that call about?

Mr. SILBERMAN. What home where?

Mr. SIMON. Whatever home you had where the telephone number was LO 6-3696.

Mr. SILBERMAN. Isn't it perfectly possible, Mr. Simon—

Mr. SIMON. I didn't ask you whether it was perfectly possible.

Mr. SILBERMAN. I am answering it that way.

Mr. SIMON. I am asking you what he called you about.

Mr. SILBERMAN. I am going to protect myself.

Mr. SIMON. I asked you what he called you?

Mr. SILBERMAN. I don't know. He called my office—

The CHAIRMAN. Your answer is you don't know?

Mr. SILBERMAN. He called at 11 in the morning. I think it fair to let me answer. He might have called my office and referred it to my home because I might not have been in the office yet.

Mr. SIMON. He called you at his home?

Mr. SILBERMAN. I don't know.

Mr. SIMON. I am telling you.

Mr. SILBERMAN. You are inferring he called me at my home. I am trying to answer he called me at my office and called me home, maybe.

Mr. SIMON. All I am telling—

Mr. SILBERMAN. I know what you are telling me. I am also telling you our transactions are of a business nature, and I will insist on it very strongly.

Mr. SIMON. I know—

Mr. SILBERMAN. Not gambling business.

Mr. SIMON. I want to know what your business was?

Mr. SILBERMAN. I don't know. Pertaining to our office. We did a great deal of business with FHA. Sometimes he called me asking for information and reference on people.

The CHAIRMAN. It is now 5 o'clock. I am just wondering, inasmuch as it is going to take another hour or hour and a half, the way we are going—if you would just answer "yes" or "no" or say "I don't know"—

Mr. SILBERMAN. I will do it, Senator, but I would like to conclude it tonight because I have got to go out of town tomorrow as we told you before. You know that, I will try my best to make very short answers if Mr. Simon will ask me in such a way he doesn't put me at a disadvantage.

The CHAIRMAN. He hasn't asked you a single question but what you could answer "yes," "no," or "I don't know."

Mr. SILBERMAN. Let us start from here, and I will try to answer "yes" or "no."

The CHAIRMAN. We have a list of many telephone calls that you made to Powell and he made to you. We want to know if you remember what was said in any of those conversations.

Mr. SILBERMAN. All right.

The CHAIRMAN. Do you remember a single telephone call that you made to Mr. Powell or he made to you?

Mr. SILBERMAN. Do you mean the substance of the telephone conversation?

The CHAIRMAN. Yes.

Mr. SILBERMAN. That would be very difficult. I do not.

The CHAIRMAN. You just can't remember. Your answer is you just can't remember.

Mr. SILBERMAN. That is right.

The CHAIRMAN. You may proceed, Mr. Counsel. Let us see if we can finish here.

Mr. SIMON. If I go through——

(There was a conference between Mr. Silberman and Counsel Siskind.)

Mr. SISKIND. Pardon me.

Mr. SILBERMAN. My lawyer has suggested—is that permissible?

The CHAIRMAN. What?

Mr. SILBERMAN. He has suggested something.

The CHAIRMAN. Yes. All we want is the facts, and your lawyer and your C. P. A. can give you all the help they can.

Mr. SILBERMAN. He suggests he knows that Mr. Powell at different times called me. He knows he did call me.

(There was a conference between Mr. Silberman and Counsel Siskind and Shipley.)

Mr. SIMON. Does your lawyer know better than you do what Powell called you about?

Mr. SILBERMAN. He could. I have told him. He is refreshing my memory.

Mr. SIMON. Fine.

Mr. SILBERMAN. I am answering your question.

Mr. SIMON. Fine.

Mr. SILBERMAN. I am saying Mr. Powell called me a few times asking me whether I was going to use my box on a particular day that he had some guests, could he use my box and I gave him permission to use it a few times. That I do recall. That is answering your question, Senator, the substance of conversation.

The CHAIRMAN. Yes; the same question Simon asked you.

Mr. SIMON. How many times did that happen?

Mr. SILBERMAN. I don't know. I don't know.

Mr. SIMON. How many times?

Mr. SILBERMAN. I don't know.

Mr. SIMON. Once or twice, 20 or 30 times?

Mr. SILBERMAN. A few times.

Mr. SIMON. Is that once or twice or 20 or 30 times?

Mr. SILBERMAN. Three, four, five, six times. I don't know.

The CHAIRMAN. That is a sufficient answer.

Mr. SIMON. Now we have some telephone calls that you made from Florida to his home at the Sheraton Park Hotel in Washington. Do you know what those were for?

Mr. SILBERMAN. Sheraton Park Hotel?

The CHAIRMAN. Used to be the Wardman Park.

Mr. SILBERMAN. I didn't know that.

Mr. SIMON. They changed the name.

Mr. SILBERMAN. The same answer. I don't know. He might have called my office.

Mr. SIMON. These are cases where you called him from Florida at his hotel.

The CHAIRMAN. You called him, you see, from Florida at his home, in the Wardman Park Hotel in Washington.

Mr. SILBERMAN. I am answering that he most likely had called my office in Baltimore, and when I communicated with my office they said Mr. Powell has called you and I would return the call.

The CHAIRMAN. In other words, you think what happened was that he called your Baltimore office?

Mr. SILBERMAN. That is right.

The CHAIRMAN. And then they told him——

Mr. SIMON. Are you saying under oath that is what happened?

Mr. SILBERMAN. I say that most likely happened. I am not saying any particular definite thing happened. I can't remember that. I know at times it did occur that way. I will put it to you that way.

Mr. SIMON. And at times it didn't?

Mr. SILBERMAN. I won't say that.

Mr. SIMON. Suppose we have a situation where you called him from Florida at his hotel and he hadn't called you at Baltimore. What would that be for?

Mr. SILBERMAN. It could happen that I talked to my office. You are only making me guess.

The CHAIRMAN. Your answer is you do not remember what you discussed?

Mr. SILBERMAN. That is right.

The CHAIRMAN. We may proceed, then.

Mr. SIMON. Now, going to Uplands B Apartments; do you recall that building?

Mr. SILBERMAN. May I interrupt, Mr. Simon, to correct——

Mr. SIMON. No.

Mr. SILBERMAN. I know, but you have gone away from a figure that is incorrect. I think I should be able to correct a figure you have in front of you.

Mr. SIMON. I have no figures.

Mr. SILBERMAN. You took figures, the amount of differentiation on the first deal, and you forgot an item of \$120,000.

Mr. SIMON. I didn't forget anything. I asked your accountant——

Mr. SILBERMAN. You said he was answering the question.

Mr. SIMON. Don't tell me I forgot something.

Mr. SILBERMAN. Let us say we forgot something.

Mr. SPERO. May I interject something? At one point quite a bit earlier you said you wanted to stick with that first mortgage commitment, and you didn't want to know anything about the \$120,000.

Mr. SIMON. I never heard of the \$120,000.

Mr. SPERO. I think if you will reread that you will find it.

The CHAIRMAN. What is the \$120,000?

Mr. SILBERMAN. When the building was completed we asked permission of the FHA, and we had to get permission to convert a certain number of apartments to smaller apartments, and we converted 50 apartments and made 100 apartments out of it, and that cost us \$120,021.71, which went into the total cost of the job.

Mr. SIMON. That was not called for by the plans that FHA approved?

Mr. SILBERMAN. No; it was not.

Mr. SIMON. After the building was done you decided to spend some more money?

Mr. SILBERMAN. Due to the fact that the rental program was not successful at the beginning, we thought this would improve it, and it did. We rented the property.

Mr. SIMON. Our statement is still correct, that the cost of the project that FHA authorized—

Mr. SILBERMAN. Technically you are right, but practically you are wrong. It went out of my pocket. You want to know what went in and what went out. I tell you.

Mr. SIMON. You might have bought your wife a mink coat, too.

Mr. SILBERMAN. I did. I bought her a mink coat and I hope I will be able to afford to buy her more. I hope you will be able to do it. When you leave this thing I hope you will get a job and make a lot of money and work hard like I did.

The CHAIRMAN. You are being just a little cocky, if I may say so. We do not appreciate it.

Mr. SILBERMAN. I apologize, sir.

The CHAIRMAN. We are trying to do an honest job of this investigation, and trying to get the facts. You ought to be able to answer the questions "yes" or "no," or if you don't know just simply say so, "I do not know."

Mr. SILBERMAN. I apologize, sir.

The CHAIRMAN. We are trying to get the facts. You did build, and the FHA, the Federal Government, did guarantee several million dollars worth of mortgages for your projects.

Mr. SILBERMAN. I apologize, Senator.

The CHAIRMAN. As a result of that we are entitled to the facts. That is all we want.

Mr. SILBERMAN. In getting the facts is it worthwhile for Mr. Simon to say my wife might have bought a mink coat? It works both ways. He took a crack at me. It is human nature to talk about.

I apologize.

The CHAIRMAN. You said you spent \$120,000. You did.

Mr. SIMON. It wasn't called for by the plans and specifications of the project FHA approval.

Mr. SILBERMAN. That is right. The net result was we had \$120,000 less.

The CHAIRMAN. Did you get the mortgage increased by \$120,000?

Mr. SILBERMAN. No, sir.

The CHAIRMAN. You did not?

Mr. SILBERMAN. No, sir.

The CHAIRMAN. After it was all over and the project was built you decided it would make a better project if you would spend an additional \$120,000?

Mr. SILBERMAN. That is right.

The CHAIRMAN. And you did?

Mr. SILBERMAN. That is right.

The CHAIRMAN. All right. Maybe that is the way to say it.

Mr. SILBERMAN. I am sorry, sir. That is why you are a Senator and I am not. You can put it better.

Mr. SIMON. In Uplands B Apartments who owned the stock in that?

Mr. SILBERMAN. The setup was exactly the same. That was a shorter time than the other.

Mr. SIMON. What was the amount of the mortgage?

Mr. SILBERMAN. May I turn it over to Mr. Spero?

Mr. SIMON. Do you know?

Mr. SILBERMAN. I will read it. I would prefer that my accountant read the figures. Have you any objection?

The CHAIRMAN. We will permit your accountant to give us the figures.

Mr. SIMON. Do you agree that the answers he will give will be accepted by you as the right answers?

Mr. SILBERMAN. Yes, sir.

Mr. SPERO. Thank you.

The CHAIRMAN. You may proceed.

Mr. SIMON. What was the amount?

Mr. SPERO. \$3,900,000.

The CHAIRMAN. Was there a premium?

Mr. SPERO. No, sir.

Mr. SIMON. What was the cost to the Silberman interests of building that building, not including any profits they paid themselves, but including the cost of the land, the cost of the buildings, interest, and everything else?

Mr. SPERO. Do you want to go through the same procedure that we went on the other one because we didn't build our figures up that way?

The CHAIRMAN. Don't you know what the total costs were?

Mr. SPERO. Yes. We have \$3,274,243.57.

Mr. SIMON. Say that again.

Mr. SPERO. \$3,274,243.57.

Mr. SIMON. Does that include the land?

Mr. SPERO. That includes the land.

Mr. SIMON. Does it include interest and carrying charges?

Mr. SPERO. It does not.

Mr. SIMON. What are the interest and carrying charges?

Mr. SPERO. \$243,200.

Mr. SIMON. Was that actually paid out for interest and carrying charges?

Mr. SPERO. I will give you the same answer I gave before. I cannot answer that now properly.

Mr. SIMON. That isn't the amount of interest and carrying charges, then?

Mr. SPERO. It is the amount set up. What was actually paid out, I don't know. I can't answer it any differently from the previous answer.

Mr. SIMON. The \$3,274,000, was any of that profit to Mr. Silberman or his partner?

Mr. SPERO. By profit do you mean was any of that salaries?

Mr. SIMON. Or profit on land or anything else.

Mr. SPERO. Well, on the same basis you discussed the A proposition. This project was completed some time early in 1950. During that particular fiscal year, Mr. Silberman and his partner, Mr. DeChario, took out in the form of salaries, \$38,400. Now you must remember, they were not long engaged in other things.

Mr. SIMON. All I am asking you is how much of the \$3,274,000 that you said was the cost of constructing this building they made to themselves.

Mr. SPERO. You can't answer it that way. In other words, they were engaged in other construction jobs. They were doing other things. They were managing other properties. We made no allocation—

The CHAIRMAN. What percentage of the total salaries do you think ought to be allocated to this one project?

Mr. SPERO. I can't answer that. I haven't got any figures to substantiate that.

Mr. SIMON. Can you give us the breakdown of who got this \$3,274,000?

Mr. SPERO. Quite a substantial amount of subcontractors, various people. Answering along the same lines you did on your Apartments A, there was a land cost in there and there was a salary cost.

Mr. SIMON. All right. I want to know who got this \$3,274,000.

Mr. SPERO. Do you want the names of every single person?

Mr. SIMON. If you gave us the names of every single person it would show how much of it went to Mr. Silberman.

Mr. SILBERMAN. None of it went to me, why not make it easy.

Mr. SIMON. He just testified under oath some did.

Mr. SILBERMAN. Except a salary. I am trying to shorten it up. None of it.

Mr. SIMON. We don't care which of you wants to testify, but I don't see any point in your contradicting each other.

Mr. SILBERMAN. We are not. We are just misstating what he said.

Mr. SPERO. For practical purposes—

Mr. SIMON. That wasn't our question about practical purposes.

Mr. SPERO. May I answer my own way, then?

The CHAIRMAN. Yes; answer in your own way and let's see what it is.

Mr. SPERO. These 2 officers took a salary during that particular year of \$38,400, which we were charged against that particular construction figure of \$3,274,243.57. In other words, it is included in that figure.

Mr. SIMON. You charged it against this job?

Mr. SPERO. That is exactly correct.

Mr. SIMON. How much profit did they make on the sale of the land?

Mr. SPERO. The land was taken in at \$160,000.

Mr. SIMON. What did it cost them?

Mr. SPERO. At that particular time, deducting all of our cost factors, and all of our acreage factors against the full tract that was purchased, we had a cost of \$72,728.24, and at that time we had remaining over 63 acres, so approximately there might have been \$1,200 an acreage cost. There were 24 acres used against this particular project, substantially there was around \$29,000 of cost against \$160,000 of selling price.

Mr. SIMON. So \$131,000 was profit?

Mr. SPERO. Substantially. You must remember that—I will withdraw that.

Mr. SIMON. Is that right? We only want to know what happened. (Conference between Mr. Siskind and Mr. Spero.)

Mr. SIMON. Is that right?

Mr. SPERO. For these purposes I would let it stand at that figure that we just said. In other words, substantially \$130,000.

Mr. SIMON. Are you saying, Mr. Auditor, that the total cost of this project was \$3,274,243, plus an amount that you can't describe, but that is not more than \$243,200 for interest and carrying charges? Is that right?

Mr. SPERO. That is right.

Mr. SIMON. And includes in that, included in that is \$38,400 that they paid themselves for salary and \$131,000 that they paid themselves for the land in excess of what the land had cost them? Is that right?

Mr. SPERO. That is correct.

Mr. SIMON. So that on a net basis, the entire cost of the project, including interest and carrying charges, was not more than \$3,348,000?

Mr. SPERO. Let me go slowly with you on that. We started off with \$3,274,243.57. You want to deduct from that—

Mr. SIMON. I don't want to do anything.

Mr. SPERO. What is your question then?

Mr. SIMON. You say the interest and carrying charges were not more than \$243,200.

Mr. SPERO. That is right.

Mr. SIMON. And that included in that is \$38,400 they paid themselves in salaries, and \$131,000 that they paid themselves in profit on the land?

Mr. SPERO. That is right.

Mr. SIMON. Then the net cost of the land, the buildings and the interest and the carrying charges and everything else would be \$3,348,000; is that right?

Mr. SILBERMAN. May I ask the question, sir?

The CHAIRMAN. You may.

Mr. SIMON. I would like to get an answer to my question first.

The CHAIRMAN. Let him answer the question. Then you may ask.

Mr. SILBERMAN. While he is figuring I can say it.

The CHAIRMAN. Just a minute, please.

Mr. SPERO. I have a figure the most it could have cost them was \$3,408,000. I could be wrong.

Mr. SIMON. \$3,408,000?

Mr. SPERO. Yes; on the basis upon which you are figuring. In other words, I took my \$3,274,243.57. I added on to that the \$243,200 of carrying charges. That gave me \$3,517,443. I deducted from that the total of salaries of \$38,400 and \$131,000. That is \$3,448,043.

Mr. SIMON. Are you sure it isn't—

Mr. SPERO. \$3,348,000.

Mr. SIMON. \$3,348,000?

Mr. SPERO. That is right.

Mr. SIMON. The difference between the total cost and mortgage is \$552,000; is that right?

Mr. SPERO. I beg your pardon?

Mr. SIMON. The difference between the total costs and the mortgage is \$552,000? Subtract—

Mr. SPERO. I am doing that now. That is correct.

Mr. SIMON. That is correct; isn't it?

Mr. SPERO. That is correct.

The CHAIRMAN. Well, then, the proceeds of the mortgage was \$552,000 more than the total cost of the entire project; is that correct?

Mr. SPERO. That is right.

Mr. SILBERMAN. Can I ask my question now?

The CHAIRMAN. Yes.

Mr. SILBERMAN. By your method of computation, is the committee's theory that salaries paid to active employees on the job——

The CHAIRMAN. Give them the \$38,000. Then it is around \$500,000. We never have done it, but in this case we will do it. It is still five-hundred-some-thousand dollars.

Mr. SILBERMAN. By your method of computation, an official of the company——

Mr. SIMON. When you mow your lawn, who pays you for it?

Mr. SILBERMAN. That is not a parallel. You couldn't get one person in a million to agree you are correct in that question.

Mr. SIMON. My question was when you mow your lawn, who pays you for it? Who pays you for mowing your lawn?

Mr. SILBERMAN. Nobody pays me to breathe either, but I have to breathe.

Mr. SIMON. My question is, Who paid you for mowing your lawn?

Mr. SILBERMAN. I am not going to answer the question.

The CHAIRMAN. We are having the same trouble here that we have with all witnesses on these section 608 mortgaging outs; namely, that our position is that you own the project. You own——

Mr. SILBERMAN. I was only asking a question then.

The CHAIRMAN. It is yours. You haven't sold it. You own it. Therefore, anything that you did in behalf of it, you were working for yourself.

Mr. SILBERMAN. May I ask you this, I won't digress another minute. In my business where there is an official of the company running a company or part of it and he gives his active time to the company and he makes a chair, the chair belongs to him when it is finished. Is the cost of his time in the cost of that chair or not? That is a parallel 100 percent. I would like to ask one more question. Now you can wipe it off.

The other question was—I forgot it—I have to laugh at myself. Oh, yes. In the value of the land, technically, these land costs are correct.

Now I am asking you again for information as to how you compute. If we take a tract of land, you see, Mr. Simon is getting the par cost of the land from my accountant.

The CHAIRMAN. He got exactly what you paid for it.

Mr. SILBERMAN. Yes, but he refuses to add to it or maybe we haven't put it correctly, all the utilities.

The CHAIRMAN. He has not. That was in your cost.

Mr. SILBERMAN. No; that we brought. No. I don't mean in the cost of construction, that we brought to the land; not the actual construction cost that went into the project itself, but the utilities brought to the whole tract and we have to allocate that per acre, every builder and every investor has to do that. We haven't done that.

Mr. SIMON. We wanted the total.

Mr. SILBERMAN. You asked par costs and he gave it to you.

Mr. SIMON. We asked for total cost to you of the land, whatever it cost.

Mr. SILBERMAN. We will leave the figures as they are. You haven't taken them. We don't want to waste any more time. We made that much money according to you.

The CHAIRMAN. You made—let me see if we are correct—the total proceeds of the mortgage guaranteed by the Government was \$552,000 more than the total costs, all your costs of building the project.

Now, accepting that you think you ought to have credit for \$38,000 in salaries. Personally I am going to give you credit for it at the moment.

Mr. SILBERMAN. Thank you, sir.

The CHAIRMAN. Then you think you should be given credit for some land value. I will give you another \$100,000 for that. That is \$138,000 off of \$552,000. Then what have you got? You still have got \$300,000 some.

Mr. SILBERMAN. That is right.

The CHAIRMAN. More than the total proceeds of the mortgage, above all costs.

Mr. SILBERMAN. We admit it.

The CHAIRMAN. On a Government FHA-guaranteed mortgage and you still own the property.

Mr. SILBERMAN. That is right.

Mr. SIMON. Did you pay a dime of income tax on that excess of funds that you had left over?

Mr. SILBERMAN. It is in surplus. Nothing has been distributed.

The CHAIRMAN. Did you pay any income tax on it?

Mr. SILBERMAN. Not as yet, but we will have to. It is only a method of paying it.

Mr. SIMON. Did you pay any income taxes on it?

Mr. SILBERMAN. I say no, but I qualify it. May I explain it?

Mr. SIMON. What you did—

Mr. SILBERMAN. Are you telling me what I did or are you asking me?

The CHAIRMAN. You tell us.

Mr. SILBERMAN. You are asking and answering everything.

The CHAIRMAN. Mr. Silberman, did you pay any income tax?

Mr. SILBERMAN. No. May I answer?

Mr. SIMON. What year did this money come to you?

Mr. SILBERMAN. Spero, what year did we get the final payment?

Mr. SPERO. You are talking about the B job. That was completed in February 1950.

Mr. SIMON. February?

Mr. SPERO. February 1950.

Mr. SILBERMAN. Is that B?

Mr. SPERO. Yes.

Mr. SIMON. Completed 4 years ago. When did you file your 1950 income-tax return?

Mr. SPERO. April 30.

Mr. SIMON. 1951?

Mr. SPERO. 1950. They are on fiscal year ending April 30.

Mr. SIMON. You still haven't paid any income taxes on that money?

Mr. SILBERMAN. You will get it. You know you will get it. This is being slanted all over. Whenever we take a buck out you will get it. It is being slanted. We keep it. We pay it out.

Mr. SIMON. Is it true you haven't paid any income tax?

Mr. SILBERMAN. Yes.

The CHAIRMAN. Did you know the law said 90 percent of the Commissioner's estimated cost of these projects? That was the amount the mortgage was to be for?

Mr. SILBERMAN. Can I answer that?

The CHAIRMAN. Yes, just answer me if you knew that. Did you know that?

Mr. SILBERMAN. The law says——

The CHAIRMAN. 90 percent of the Commissioner's estimated cost of the replacement value.

Mr. SILBERMAN. That is right.

The CHAIRMAN. Did you know that?

Mr. SILBERMAN. It is right on the application, isn't it?

The CHAIRMAN. Yes. You knew that was the law, didn't you? You knew that was the law?

Mr. SILBERMAN. Yes, sir.

Mr. SIMON. Did you know that the Commissioner's estimate of cost was to be as close as possible to the actual costs of efficient builders?

Mr. SPERO. Are you interpreting the language?

Mr. SIMON. No. I am quoting verbatim the language of the act of Congress.

The CHAIRMAN. That is the language of the act.

Mr. SILBERMAN. Just a moment, sir.

(Conference between Mr. Silberman and Mr. Siskind.)

The CHAIRMAN. Did you know that?

Mr. SILBERMAN. Yes, sir.

Mr. SIMON. Did you know that?

Mr. SILBERMAN. You are again picking out one line. Let's get the whole law.

Mr. SIMON. I am picking out one act of Congress.

Mr. SILBERMAN. I know, but you are picking one line out of one act.

Mr. SIMON. I am not.

Mr. SILBERMAN. Let me answer you, sir.

Mr. SIMON. I am asking you if you knew that the Congress——

Mr. SILBERMAN. Included, but you were supposed to get a 10-percent builder's profit plus architect's fee which you are ignoring a hundred percent.

Mr. SIMON. There is nothing in the act of Congress that says that.

Mr. SILBERMAN. Yes; it does.

Mr. SIMON. Where does it say that?

Mr. SILBERMAN. In our application it says that.

Mr. SIMON. I am talking about the act of Congress.

Mr. SILBERMAN. You file an application——

Mr. SIMON. Now wait a minute. Let's answer one question at a time.

Mr. SILBERMAN. You asked me a fair question, sir.

Mr. SIMON. I asked where does it say in the statute in the act of Congress that you are entitled to anything?

Mr. SILBERMAN. I can't answer that. I am not a lawyer. I haven't read the act of Congress.

Mr. SIMON. Now, I ask you, did you know that in 1947, the Congress passed an amendment to the act, and all the amendment said

was just two sentences and all it said was that the estimate of cost was to be as close as possible to the actual cost of efficient builders?

Did you know that?

Mr. SILBERMAN. If you say it and it is true——

Mr. SIMON. I am interested in whether you knew it.

Mr. SILBERMAN. I haven't read it.

The CHAIRMAN. Your answer is you did not know?

Mr. SILBERMAN. That is right.

The CHAIRMAN. Did you know you could not have got this mortgage that we talked about here, which was five hundred some thousand dollars more than the total costs unless FHA had approved it?

Mr. SILBERMAN. Senator, I am sorry; I didn't catch it. I apologize.

The CHAIRMAN. Did you know you couldn't have got this amount of money from the proceeds of the mortgage if FHA had not approved it?

Mr. SILBERMAN. That is correct. They had to approve it. May I qualify my answer, sir?

The CHAIRMAN. Yes.

Mr. SILBERMAN. As a builder, and I think an efficient builder, what we were interested in was to supply plans and specifications to the FHA, in which they would base their appraisal, and as a builder, on the application it stated very plainly, "builder's fee and architect's fee."

The CHAIRMAN. That is correct. They allowed you 5 percent for architect's fee and 5 percent builder's fee. That would be a hundred percent.

Mr. SILBERMAN. That is right.

The CHAIRMAN. That would mean you would get back all of your money.

Mr. SILBERMAN. That is right.

The CHAIRMAN. You got back \$552,000 more than all your money.

Mr. SISKIND. I thought we agreed to \$400,000.

The CHAIRMAN. I reduced it. O. K.

Mr. SILBERMAN. Now, Senator——

Mr. SIMON. You haven't answered the question.

The CHAIRMAN. All we are trying to do, Mr. Silberman, in this investigation is to get the facts and simply show what happened under section 608. That is all.

Mr. SILBERMAN. All right, I am satisfied.

The CHAIRMAN. We have shown in two instances here where your mortgaging out amounted to how much?

Mr. SIMON. \$228,000 in the first and \$552,000 in the second, or a total of \$738,000.

The CHAIRMAN. On just two projects. Let's go on to the other two. You, of course, dispute that. You say maybe it is a couple of hundred thousand dollars less, to which we didn't agree, but then even if you are right; why, it is still five-hundred-some-thousand dollars.

Mr. SILBERMAN. You are being generous, sir. Fine. Thank you.

The CHAIRMAN. I think we had better recess until 9:30 tomorrow morning. I think we are getting a little tired.

Mr. SILBERMAN. Senator, can't we do it now?

The CHAIRMAN. No. We can't finish.

Mr. SIMON. We can't finish in a half-hour.

The CHAIRMAN. We can't finish in a half-hour. We are getting awfully tired. We have been at this all day. We will recess until 9:30 tomorrow morning, and our first witness will be Mr. Silberman.

(Whereupon, at 5:30 p. m., the committee recessed, to reconvene at 9:30 a. m., Friday, September 24, 1954.)



## FHA INVESTIGATION

FRIDAY, SEPTEMBER 24, 1954

UNITED STATES SENATE,  
BANKING AND CURRENCY COMMITTEE,  
*Detroit, Mich.*

The committee met, pursuant to recess, at 9:30 a. m., Senator Homer E. Capehart, chairman, presiding.

Present: Senator Capehart.

Also present: William Simon, general counsel, and Clarence E. Dinkins, assistant counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

Our first witness will be a continuation of Mr. Silberman this morning.

**TESTIMONY OF SAUL SILBERMAN, UPLAND APARTMENTS, BALTIMORE, MD., ACCOMPANIED BY A. HERMAN SISKIND AND CARL L. SHIPLEY, COUNSEL, AND SIDNEY G. SPERO, ACCOUNTANT—  
Resumed**

The CHAIRMAN. Mr. Silberman, I think we can finish with you fairly quickly if we can ascertain about three things: No. 1, we have two more projects that we want to get the amount of the total cost and the amount of the total proceeds of the mortgage. I want to tell you what we want. If I tell you in advance maybe we can get through quicker. We have two more projects. We want you to tell us the total cost of construction and total amount of the mortgage proceeds. Then we want to find out as a matter of a pattern, in order to help us in legislation, this one thing:

You made the statement in executive session that you would not have built these section 608 projects if you did not feel you could make money on the mortgages. We want to know a little more about that.

Secondly, you did receive from these section 608 projects considerably more money from the proceeds of the mortgage than the total cost. I presume we can easily get into a big argument here as to whether it is X amount or X amount. It doesn't make any difference as to the principle. I don't think we want to argue with you over \$100,000 or \$200,000 one way or the other. We are talking about the principle—the idea that you did get more from the proceeds of the mortgage than the total cost, and then we are interested in what you did with this money.

You loaned this money, and to whom you loaned it; for example, we are interested in that, to see if there is some pattern here that requires legislation or requires better FHA administration in the

future, as to whom you loaned this money that you received beyond the total cost of the project out of the proceeds of the mortgage.

Now, if we can get through those three things pretty quickly here, we can go.

Mr. Counsel, you may proceed, then.

Mr. SIMON. Mr. Silberman, are you connected with the Meade Heights Wherry project?

Mr. SILBERMAN. Yes.

Mr. SIMON. Who is the owner of that property?

Mr. SILBERMAN. Meade Heights, Inc., owns the property.

Mr. SIMON. Who are the stockholders of Meade Heights, Inc.?

Mr. SILBERMAN. Reece Contractors own the stock.

Mr. SIMON. What is the capital stock of Meade Heights, Inc.?

Mr. SILBERMAN. Right here, Senator, I would like to make a statement.

The CHAIRMAN. Yes.

Mr. SILBERMAN. I appreciate the fact you say this investigation is a cure-all, so to speak. In order to do that, I think you should get all the facts. When you have a question directed at you, it is very difficult to give you the facts. When I am asked a question, and I think this is very, very important, what is the capital stock of the company, that insinuates that that is the total capital in the company. I would like to make a statement—

The CHAIRMAN. Mr. Silberman, it is an honest statement. What is the capital stock? Now, when you get through answering that, the next question is, we will say, how much did you loan the company, and you can answer that and then the next question will be: Have all the loans been repaid?

Mr. SILBERMAN. Fine. I am asked the question: How much I invested in the company. If I am asked the question—

Mr. SIMON. You weren't asked that question.

Mr. SILBERMAN. I say if I am asked it.

The CHAIRMAN. Mr. Silberman, please; frankly, we have had more trouble with you than any witness I think since we have been on this trip.

Mr. SILBERMAN. It is very important to me to preserve my reputation.

The CHAIRMAN. It is very important to us also that the American people know the facts.

Mr. SILBERMAN. It is very important to know all the facts.

The CHAIRMAN. Let me say this to you: It is very important when I look at this statement before us here and find that money guaranteed by the Federal Government on mortgages has gone, to be loaned to race tracks, Randall Park Jockey Club—it is very important to me and very important to the American people.

Let's proceed in order. If you don't want to answer the questions, say so.

Mr. SILBERMAN. I will answer questions if you will let me answer fully.

The CHAIRMAN. We will let you answer the questions, but we won't let you cover up. I am going to say this: You possibly wouldn't have been here if you hadn't, in executive session, said you wouldn't have built these projects if you couldn't have made money out of the mortgages.

Mr. SILBERMAN. That is a truthful statement.

The CHAIRMAN. Of course, it is a truthful statement on your part, but is it a violation of the law, too?

Mr. SILBERMAN. I think it is.

The CHAIRMAN. That is a matter of opinion?

Mr. SILBERMAN. That is right.

The CHAIRMAN. Let's proceed. If you don't care to answer the questions, you say so, and we will—

Mr. SILBERMAN. I will answer all questions.

Mr. SIMON. The pending question is what is the capital stock of Meade Heights, Inc.?

Mr. SILBERMAN. \$2,000.

Mr. SIMON. What is the capital stock of Reece Contractors; is that the name of it?

Mr. SILBERMAN. Reece Contractors, Inc.

Mr. SIMON. What is the capital stock of that?

Mr. SILBERMAN. Senator, this hesitation—

The CHAIRMAN. Mr. Silberman, you worked for FHA at one time?

Mr. SILBERMAN. Seventeen years ago, Senator, for a very short period.

The CHAIRMAN. You got \$2,600 a year?

Mr. SILBERMAN. That innuendo that that had something to do with this is what I don't like.

The CHAIRMAN. You ought—

Mr. SILBERMAN. I left them 17 years ago when section 608 wasn't thought of by anybody. That is what I resent.

The CHAIRMAN. I don't know how you can resent facts.

Mr. SILBERMAN. Seventeen years ago I left them, the fact remains.

The CHAIRMAN. Yes, you did.

Mr. SILBERMAN. Let's get that in the testimony—\$1,000.

Mr. SIMON. You complained bitterly about that, Mr. Silberman. I would like to remind you that I asked you the date which you went to work for FHA and the date you left. Nobody tried to conceal when it happened.

Mr. SILBERMAN. That is right. The papers write an article about ex-FHA employee makes windfall. That is a slanted article what I am talking about, not you. I am talking about how the facts get over to the public.

Mr. SIMON. If you answer questions we will get everything in the record.

Mr. SILBERMAN. All right, but when you criticize me, I can answer it.

Mr. SIMON. What was the capital stock of Reece Contractors?

Mr. SILBERMAN. \$1,000.

Mr. SIMON. Who were the stockholders of Reece Contractors?

Mr. SILBERMAN. The same as Uplands.

Mr. SIMON. You 50 percent and DeChario 50 percent?

Mr. SILBERMAN. That is right.

Mr. SIMON. Where did the word "Reece" come from?

Mr. SILBERMAN. It means nothing.

Mr. SIMON. Where does it come from?

Mr. SILBERMAN. It is the name of a road where we built the property.

Mr. SIMON. Who advanced the money to Reece Contractors that it used to get the project started?

That is the question you were the one who wanted us to ask, about the money loaned to the company.

Mr. SILBERMAN. I am checking from the record. You don't expect me to remember all these things.

Mr. SIMON. I am asking you who loaned the money.

Mr. SILBERMAN. I am checking to make sure I get the correct answer. I am asking my accountant. I don't see anything wrong with that.

(Conference between Mr. Silberman and Mr. Spero.)

Mr. SILBERMAN. My accountant tells me we had a revolving fund which we used for our different enterprises. It came from the revolving fund.

Mr. SIMON. Where is the revolving fund?

The CHAIRMAN. What was the corporation the revolving fund was in?

Mr. SILBERMAN. Uplands, Inc.

Mr. SIMON. Uplands, Inc., loaned the money to Reece; is that what you are telling us?

Mr. SILBERMAN. Yes.

Mr. SIMON. Was that the money left over from the mortgages on the other projects?

Mr. SILBERMAN. Mr. Simon, Uplands built a great number of houses.

Mr. SIMON. Did that money that Uplands, Inc., loaned to Reece come out of the same bank account in which you deposited the money left over from the other section 608 mortgages?

Mr. SILBERMAN. The money left over from the other section 608 mortgages went into Uplands, Inc., which had considerable funds from other enterprises.

Mr. SIMON. Out of this same bank account you loaned the money to Reece to start this project?

Mr. SILBERMAN. That is right. Why don't we take Fairfax, built ahead of Reece?

Mr. SIMON. Was this Meade Heights project built on Government land?

Mr. SILBERMAN. Yes.

Mr. SIMON. What is the rent?

Mr. SILBERMAN. You mean the rental we paid the United States Government for the lease?

Mr. SIMON. Yes.

Mr. SILBERMAN. It is a very small amount, less than \$1,000 a year; \$720.

Mr. SIMON. \$720 a year?

Mr. SILBERMAN. That is right.

Mr. SIMON. What is the term of the lease?

Mr. SILBERMAN. Seventy-five years.

Mr. SIMON. What was the cost of constructing that property?

Mr. SILBERMAN. Yes, sir, Mr. Simon, we got into actual figures.

Mr. SIMON. I just asked you—

Mr. SILBERMAN. Just let me answer you, will you, please, sir? You asked me, I said yes, sir, when we got into actual figures I asked permission to let the accountant answer as to figures because we got through faster. Can I do the same thing today?

Mr. SIMON. If you don't know and he does.

Mr. SILBERMAN. He has the figures. I don't know. Would you permit him to answer?

Mr. SIMON. What was the cost?

Mr. SPERO. \$2,361,482.

Mr. SIMON. Does that include interest and carrying charges?

Mr. SPERO. That does not.

Mr. SIMON. What were the interest and carrying charges?

Mr. SPERO. \$176,302. When I say what they were, the way these things were set up there, it was a reservation made for the project analysis for that amount. As I told you yesterday, at this time I can't analyze it to give you the exact amount expended for those.

Mr. SIMON. You don't know what the interest and carrying charges were, but it is not more than \$176,000?

Mr. SPERO. That is correct.

Mr. SIMON. Were there any other costs in connection with constructing that building?

Mr. SPERO. No.

Mr. SIMON. That is total cost?

Mr. SPERO. That is right.

Mr. SIMON. So the total cost is not more than \$2,537,000?

Mr. SPERO. That is right.

Mr. SIMON. What was the amount of the mortgage?

Mr. SPERO. \$2,832,800.

Mr. SIMON. So the total costs were \$295,000 less than the amount of the mortgage?

Mr. SPERO. That is correct.

Mr. SIMON. Does your accountant also have the figures on Fairfax Gardens, Mr. Silberman?

Mr. SILBERMAN. Yes, sir.

Mr. SIMON. Fairfax Gardens, Inc., is owned by whom?

Mr. SILBERMAN. Same as Uplands.

Pardon me, sir.

(Conference between Silberman and Spero.)

Mr. SILBERMAN. Same stockholders as Uplands, Inc.

Mr. SIMON. Is it owned by Uplands, Inc., or is it owned by the stockholders alone?

Mr. SISKIND. Stockholders.

Mr. SIMON. Who built Fairfax Gardens?

Mr. SILBERMAN. Uplands, Inc.

Mr. SIMON. What was the cost to Uplands, Inc., of building the project?

Mr. SILBERMAN. Mr. Spero will answer that.

Mr. SPERO. \$1,478,706.38.

Mr. SIMON. Does that include the land?

Mr. SPERO. It does.

Mr. SIMON. Does it include the land at the cost from the last stranger?

Mr. SPERO. That is right, from the last stranger.

Mr. SIMON. Does that include interest and carrying charges?

Mr. SPERO. That does not.

Mr. SIMON. Do you know what the interest and carrying charges were?

Mr. SPERO. \$73,143.

Mr. SIMON. Is that the actual amount?

Mr. SPERO. I will give you the same answer as I gave previously.

Mr. SIMON. You don't know what they are, but not to exceed \$73,000?

Mr. SPERO. That is correct.

Mr. SIMON. Were there any other costs in construction in connection with that project?

Mr. SPERO. No, sir.

Mr. SIMON. Total cost was \$1,551,000; is that right?

Mr. SPERO. That is right.

Mr. SIMON. What was the amount of the mortgage?

Mr. SPERO. \$1,505,800.

Mr. SIMON. Was there a premium on the mortgage?

Mr. SPERO. I think Mr. Silberman should answer that.

Mr. SIMON. Do you know?

Mr. SILBERMAN. Yes.

Mr. SIMON. Do you know?

Mr. SPERO. I don't know of my own knowledge.

Mr. SILBERMAN. It was 2 percent to be paid as follows, one-half of 1 percent to be paid at time of delivery of mortgage, and one-half of 1 percent at the end of second, third, and fourth years thereafter.

Mr. SIMON. When was the project completed?

Mr. SILBERMAN. December 21, 1951.

Mr. SIMON. Two percent would be roughly \$30,000; is that right?

Mr. SILBERMAN. That is right.

Mr. SIMON. Incidentally, was there a premium?

Mr. SILBERMAN. That went to the holding company. It did not go to the construction company.

Mr. SIMON. The same people owned both companies; didn't they; is that right?

Mr. SILBERMAN. It doesn't go into the fund of the construction company.

Mr. SIMON. The same people own both companies?

Mr. SILBERMAN. Let's get the facts right.

Mr. SIMON. I am trying to. The same people own both companies?

Mr. SILBERMAN. That is right.

Mr. SIMON. Was there a premium on the Meade Heights project?

Mr. SILBERMAN. No.

Mr. SIMON. This is the only one you got a premium on?

Mr. SILBERMAN. That is right.

Mr. SIMON. So that your total cost here was \$16,000 more than the total proceeds of the mortgage, disregarding your transactions within the companies?

Mr. SILBERMAN. Wait a minute. What transactions within the company are you talking about? Don't let's leave it open as if there was any.

Mr. SIMON. You just told me the premium went to one company—

Mr. SILBERMAN. You are talking about the premium itself. I thought you meant we were covering up some price somewhere. I don't want any innuendoes. There is no coverage here of any kind at any time.

Mr. SIMON. I was trying to give you the benefit of the fact that some of the money went to one company and some went to another.

Mr. SILBERMAN. Fine. Thank you, sir.

Mr. SIMON. The total cost there was \$16,000 more than the total mortgage proceeds.

Mr. SILBERMAN. Yes. Let's say that loudly. We lost money on that one.

Mr. SIMON. You still own the project, don't you?

Mr. SILBERMAN. That is right.

Mr. SIMON. It is your building?

Mr. SILBERMAN. That is right. It will take a long time before we see any money out of it, if ever.

Mr. SIMON. On the 4 projects, including the 1 you say you lost money on, but still own, I would say you had \$16,000 invested in—

Mr. SILBERMAN. Fine—

Mr. SIMON. Including the project you had \$16,000 invested in, in the 4 projects, the total excess of mortgage proceeds over cost is roughly \$1 million; is that right?

Mr. SILBERMAN. That is about right.

Mr. SIMON. Now, that excess of cost over mortgage proceeds remained in Uplands, Inc.; is that right?

Mr. SILBERMAN. Uplands and Reece, both.

Mr. SIMON. It remained in Uplands and Reece.

The CHAIRMAN. We don't have a copy. Let's have your April 30 restatement, will you, please? Thank you, sir.

Mr. SIMON. It was not distributed to the stockholders by way of dividends?

Mr. SILBERMAN. No, sir.

Mr. SIMON. And for that reason no income taxes have ever been paid on that \$1 million?

Mr. SILBERMAN. That is correct.

Mr. SIMON. Among the things that has been done with this money is \$430,000 loaned to the Randall Park Jockey Club, Inc.; is that right?

Mr. SILBERMAN. Are you talking about Uplands or Reece?

Mr. SIMON. Uplands, Inc. I have before me what purports to be an April 30, 1954, balance sheet of Uplands, Inc., which shows a total of \$504,355.45 owing from Randall—

The CHAIRMAN. \$430,000—

Mr. SIMON. Randall Park Jockey Club; is that right?

Mr. SILBERMAN. Not quite. There was a transaction between Uplands, Inc., which is our construction company, which has other funds in addition to the funds which they received from our 608 projects.

Mr. SIMON. But does have the funds left over from the section 608 project?

Mr. SILBERMAN. That is right. But they didn't lend that money to Randall Park Jockey Club. They performed a service. They remodeled and rebuilt it for the tune of seven-hundred-some-thousand dollars, for which they received a profit of 15 percent, and part of it was paid and part of it is bearing interest.

The CHAIRMAN. Now, Mr. Silberman, I have before me your April 30, 1954, balance sheet of Upland, Inc., and I find that notes receivable—that is the amount that Randall Jockey Club owes Uplands, Inc., due after 1 year—of \$430,000, and then up here, notes receivable due within 1 year from the Randall Park Jockey Club of \$74,355.45. So that is a total of a little over \$500,000 that Uplands, Inc., loaned to the Randall Park Jockey Club is that correct?

Mr. SIMON. I gather what you are saying, it was not a loan in the sense of loaning the money, but you did construction work for them?

Mr. SILBERMAN. That is correct.

Mr. SIMON. For which you had to advance the labor and material cost out of funds in your bank account, and they owe you that, representing the return of the labor costs and the material costs that you paid out, plus the profit on the job?

Mr. SILBERMAN. That is right.

The CHAIRMAN. I also find here loans and exchange receivables, officers, \$549,446.34. Was that money loaned to you and who are the officers of Uplands?

Mr. SILBERMAN. I suppose most of it was loaned to me.

Mr. SIMON. And—

Mr. SILBERMAN. On collateral.

The CHAIRMAN. What interest do you pay on this?

Mr. SILBERMAN. Four percent.

Mr. SIMON. In other words, you would say the great majority of this \$549,446.34 is loaned to yourself?

Mr. SILBERMAN. That is right.

The CHAIRMAN. And the other officers are who?

Mr. SILBERMAN. Of which company?

The CHAIRMAN. Of Uplands, Inc.

Mr. SILBERMAN. Ralph DeChario is president and treasurer.

The CHAIRMAN. And what are you?

Mr. SILBERMAN. I am no officer at all.

The CHAIRMAN. You are not an officer?

Mr. SILBERMAN. I am not an officer.

The CHAIRMAN. Now just a minute. This statement says officers, schedule 2, \$549,446.34. If you are not an officer, then you are not in this item, so evidently this money was loaned to the officers.

Mr. SPERO. I think you can substitute the word "stockholder" for officers.

The CHAIRMAN. In other words, officers should have been stockholders?

Mr. SPERO. It could be.

The CHAIRMAN. This also shows that you have loaned to affiliated companies \$33,427.36. To what company is that?

Mr. SIMON. We have that list here, Senator: Uplands, Meade, Reece, Fairfax, and Urban Management.

The CHAIRMAN. Then "others" it shows, loans to others, of \$111,122.68.

Mr. SIMON. The first one is Fenmore Terrace, Inc. Is that a company you control?

Mr. SILBERMAN. I have no interest in it.

Mr. SIMON. You just loaned it some money?

Mr. SILBERMAN. Yes.

Mr. SIMON. The next is Randall Park Jockey Club. Do you have any interest in that?

Mr. SILBERMAN. I am the president.

Mr. SIMON. Are you also a stockholder?

Mr. SILBERMAN. Yes, sir.

Mr. SIMON. Does that run a racetrack in Cleveland?

Mr. SILBERMAN. It does.

Mr. SIMON. The next one is the Randall Park Holding Corp. Is that part of the same racetrack?

Mr. SILBERMAN. That has been merged. It is now one company.

Mr. SIMON. The next is Painesville Raceway, Inc. Is that a race-track somewhere?

Mr. SILBERMAN. That is a little trotting track. That is an investment. That is not a loan.

The CHAIRMAN. It shows as a loan here.

(Conference between Mr. Silberman and Mr. Spero.)

Mr. SIMON. Isn't that a loan, Mr. Silberman?

Mr. SILBERMAN. I think we have debentures from the racetrack; a racetrack, an investment of that amount of money.

Mr. SIMON. Where is the raceway?

Mr. SILBERMAN. A trotting track outside of Cleveland.

Mr. SIMON. You are stockholder and president of that?

Mr. SILBERMAN. Yes.

Mr. SIMON. Next is Williston Park Homes.

Mr. SILBERMAN. I have no interest in that.

Mr. SIMON. You loaned it some money?

Mr. SILBERMAN. Yes.

Mr. SIMON. Next is Tropical Park; is that a racetrack?

Mr. SILBERMAN. Yes.

Mr. SIMON. Where is that?

Mr. SILBERMAN. Miami.

Mr. SIMON. Are you president?

Mr. SILBERMAN. Yes.

Mr. SIMON. Are you a stockholder there too?

Mr. SILBERMAN. Yes.

Mr. SIMON. Uplands loaned the money; is that true?

Mr. SILBERMAN. How much is the amount?

Mr. SIMON. It says here \$25,130.

Mr. SILBERMAN. I guess the account has it there. It must be right, but that is an interchange. It might be a short term of some kind. I am not familiar with the exact transaction. They might have some time done something and got the money back for it.

Mr. SIMON. This also shows that you borrowed \$311,000 from the company; is that right?

Mr. SILBERMAN. The Senator read before, it was approximately \$500. That includes this \$300.

Mr. SIMON. \$549,000—

The CHAIRMAN. To all officers and stockholders?

Mr. SILBERMAN. Yes. That includes this \$300. That is not in addition to the other one.

The CHAIRMAN. That is the amount you borrowed?

Mr. SILBERMAN. That is right.

Mr. SIMON. I notice on this sheet that all of the stockholders borrowed money from the corporation. Were those loans from the corporation instead of paying dividends?

Mr. SILBERMAN. No, sir.

Mr. SIMON. If you paid dividends, you would pay an income tax, but if you loan the money, you don't pay income tax; is that right?

Mr. SILBERMAN. You are making a statement, but you add something else to it. You asked me two questions.

Mr. SIMON. The statement is true. When you pay dividends out of a corporation, you have to pay an income tax on the dividend?

Mr. SILBERMAN. That is right.

Mr. SIMON. When you borrow money from the corporation, you don't have to pay an income tax on them.

Mr. SILBERMAN. That is right.

Mr. SIMON. This \$311,000 that you borrowed from Uplands, Inc., was any part of that money used to buy your stock in Randall Park Jockey Club?

Mr. SILBERMAN. I don't think so.

Mr. SIMON. Do you know?

Mr. SILBERMAN. I would say 98 percent, that it was not borrowed.

Mr. SIMON. That means 2 percent not sure?

Mr. SILBERMAN. You want to make it so technical. I didn't use any of that money, in my belief.

Mr. SIMON. Was any of this \$311,000 borrowed from Uplands, Inc., used to buy stock in Tropical Park?

Mr. SILBERMAN. No, sir. I spent that money.

Mr. SIMON. You spent it on chocolate drops?

Mr. SILBERMAN. The mink coat you talked about yesterday.

Mr. SIMON. Was any part of that \$300,000 used to buy stock in the Cleveland Browns football team?

Mr. SILBERMAN. No, sir.

Mr. SIMON. You are a large stockholder in that and chairman of the board?

Mr. SILBERMAN. That is right, chairman of the executive board.

The CHAIRMAN. Let me see if I review the facts. On the 4 projects the proceeds of the Government-guaranteed mortgage was \$1 million, approximately \$1 million more than the total costs, and the \$1 million remained in your construction company called Uplands, Inc., and Reece, and you did not pay any taxes, but simply kept the money there, and let me say this: There was no violation of the law in not paying the taxes.

Mr. SILBERMAN. May I add I paid a personal tax.

The CHAIRMAN. Wait a minute. Then you proceeded to loan the money, this \$1 million, and other funds that you made from other sources, because Uplands dealt in other things, to yourself and your partners or stockholders, for other purposes, and I say loaned the money to yourself and to other concerns.

Mr. SILBERMAN. That is right.

The CHAIRMAN. That is about what happened; those are the things that we are interested in in respect to these section 608 projects.

Mr. SILBERMAN. I would like not to leave the impression that I don't pay income tax.

The CHAIRMAN. I just said a minute ago——

Mr. SILBERMAN. I paid about \$90,000 last year personally.

The CHAIRMAN. I just said there is nothing illegal about what you did.

Mr. SILBERMAN. You are talking about income taxes. I would like to get it in the record.

Mr. SIMON. Nobody has ever paid an income tax on this \$1 million of excess costs; is that right?

Mr. SILBERMAN. That is right, but the inference from you——

Mr. SIMON. Is that right?

Mr. SILBERMAN. The inference from you there was no taxes paid is what I would like to clear to the newspaper people.

Mr. SIMON. I am trying to make clear——

Mr. SILBERMAN. I know what you are trying to make clear.

The CHAIRMAN. We are just trying to get the facts. We are trying to make certain that, in the future, this sort of thing can't happen. Let me say this: You couldn't have had the \$1 million more than the total cost of the project out of the proceeds of the mortgage if FHA hadn't approved the mortgages, but they approved \$1 million more in mortgages than the total cost of all these projects; left you with \$1 million in your construction company.

You didn't pay any taxes on it, and you didn't violate any law in not paying any taxes on it. You simply kept the \$1 million and you loaned it to yourself, and other stockholders, for other purposes.

Now the thing that we don't like, frankly, about it is the fact that that \$1 million that you were loaning to yourself to make the purchases in the jockey clubs, and so forth, was \$1 million that was guaranteed by FHA, so that, if these projects went sour, the Federal Government would have lost an additional \$1 million more than they should.

We are just trying to pass laws and get administration of FHA in the future so that sort of thing can't happen, because I don't think it is good and I think you agree with me.

Mr. SILBERMAN. I do not agree with you.

The CHAIRMAN. All right. Thank you.

Mr. SIMON. One other thing. You are not in any way personally liable to pay back these FHA mortgages?

Mr. SILBERMAN. No, sir.

Mr. SIMON. The only entity that is responsible for the mortgage is the sponsoring corporation.

Mr. SILBERMAN. That is right.

Mr. SIMON. In each case that is a corporation?

Mr. SILBERMAN. The mortgagee is responsible, nobody else.

Mr. SIMON. In each case that is a corporation with \$1,000 worth of capital stock.

The CHAIRMAN. That is correct.

Mr. SILBERMAN. That is correct.

The CHAIRMAN. Thank you very much, sir. We appreciate your testimony.

Mr. SILBERMAN. Can I make a statement, Senator?

The CHAIRMAN. Yes.

Mr. SILBERMAN. I would like to make about a 5-minute statement.

The CHAIRMAN. You proceed. We want all the facts.

Mr. SILBERMAN. In the Army situation, at Fort Meade, I would like to bring out——

(Conference between Mr. Silberman and Mr. Siskind.)

Mr. SILBERMAN. You don't mind if I get a little advice from my attorney, do you?

The CHAIRMAN. No. Go right ahead.

Mr. SILBERMAN. He might think I am going to say too much.

(Further conference.)

Mr. SILBERMAN. On the advice——

The CHAIRMAN. You had better not make the statement?

Mr. SILBERMAN. My counsel says it is enough.

The CHAIRMAN. Thank you, Mr. Silberman.

At this time I would like to call the roll of our witnesses today. Is Mr. Schnackenberg present?

Mrs. SCHNACKENBERG. Present.

The CHAIRMAN. Mr. Knecht?

Mr. KNECHT. Present.

The CHAIRMAN. Mr. Kaufman?

(No response.)

The CHAIRMAN. I guess we told Kaufman 10:30. Colton?

Mr. COLTON. Present.

The CHAIRMAN. Mrs. Ruth Stokes?

Mrs. STOKES. Present.

The CHAIRMAN. Jack Chisik present?

(No response.)

The CHAIRMAN. Is Jack Chisik present?

(No response.)

The CHAIRMAN. He is not present. Marie Halbeisan?

(No response.)

The CHAIRMAN. Marie Galler.

Mrs. GALLER. Present.

The CHAIRMAN. Dominick Gertinisan.

Mr. GERTINISAN. Present.

The CHAIRMAN. Izal Crouther.

Mr. CROUTHER. Present.

The CHAIRMAN. And some gentlemen from the National Bank, I believe it is.

A VOICE. Present.

The CHAIRMAN. I believe it is the National Bank; and is John Hobby present?

Mr. HOBBY. Present.

The CHAIRMAN. Is Mrs. Helies here?

Mrs. HELIES. Yes.

The CHAIRMAN. Have you found your husband?

Mrs. HELIES. I know where he is. I am waiting for him to call.

The CHAIRMAN. He is still over in Canada?

Mrs. HELIES. Yes; he is.

The CHAIRMAN. Will Mrs. Stokes please come forward? Will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

Mrs. STOKES. I do.

#### TESTIMONY OF MRS. RUTH STOKES, DETROIT, MICH.

The CHAIRMAN. Please be seated. Sit a little closer to the microphone, will you, please, and give your name and address to the reporter for the record?

Mrs. STOKES. My name is Ruth Stokes, 5237 Linsdale.

The CHAIRMAN. Detroit, Mich.?

Mrs. STOKES. Yes.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mrs. Stokes, what is your full name?

Mrs. STOKES. The first name I never used, but it is Bessie Ruth Ross. That is the maiden name.

Mr. SIMON. Bessie Ruth Ross?

Mrs. STOKES. That is the maiden name, and Ruth Stokes is the first marriage name, Ruth Steele is the second.

Mr. SIMON. You are now Mrs. Steele?

Mrs. STOKES. Yes; Mr. Stokes is dead.

Mr. SIMON. Do you have a sister Doris Thomas?

Mrs. STOKES. Yes.

Mr. SIMON. That is her married name?

Mrs. STOKES. That is right.

Mr. SIMON. What is Doris' business? What does she do for a living?

Mrs. STOKES. Housewife now.

Mr. SIMON. Does she work at all?

Mrs. STOKES. No; she is not working.

Mr. SIMON. Did she have any job in 1952?

Mrs. STOKES. Well, she had her job, but maybe I will let her tell you about that.

Mr. SIMON. Is she here?

Mrs. STOKES. No.

Mr. SIMON. What was her job? Who did she work for?

Mrs. STOKES. She was a salesman for some company.

Mr. SIMON. A saleslady?

Mrs. STOKES. Saleslady, I am sorry.

Mr. SIMON. Was she working for a Mr. Helies?

Mrs. STOKES. I think so.

Mr. SIMON. Wallace Helies?

Mrs. STOKES. Yes.

Mr. SIMON. The Heydon Building & Supply Co?

Mrs. STOKES. Yes.

Mr. SIMON. What was her job with him?

Mrs. STOKES. I don't know exactly, saleslady, I guess.

Mr. SIMON. Did she teach you how to make these FHA loans?

Mrs. STOKES. No; she didn't.

Mr. SIMON. Where did you learn that from?

Mrs. STOKES. From the company that I worked for.

Mr. SIMON. The Universal Jalousies?

Mrs. STOKES. The Universal Jalousies.

Mr. SIMON. Were Jack Chisik and Irving Swaab the owners of that company.

Mrs. STOKES. Yes. I imagine Jack Chisik was the owner. I can't very well say he was. I know Mr. Swaab introduced himself as the big boss.

Mr. SIMON. Mr. Swaab introduced Mr. Chisik as the big boss?

Mrs. STOKES. Himself.

Mr. SIMON. At any rate, they were both with the company?

Mrs. STOKES. Yes; they both were there but I don't know what position he held.

Mr. SIMON. What was your job?

Mrs. STOKES. I was supposed to be a salesman working on a commission basis.

Mr. SIMON. A saleswoman working on a commission basis?

Mrs. STOKES. Yes, sir.

Mr. SIMON. What were you supposed to sell?

Mrs. STOKES. He explained to us we were supposed to get people who wanted work done, people who wanted loans, to buy property, or to have work done.

Mr. SIMON. Were you known as a runner?

Mrs. STOKES. Well, actually at the time, may I tell you, I was ill. I didn't get into the full swing of work. I only sent three people to him who wanted loans, but if I had been able, I guess I would have gone from door to door.

Mr. SIMON. Did Chisik or Swaab or both of them supply you with blank FHA title I loan applications?

Mrs. STOKES. Yes; I had one book.

Mr. SIMON. You had a book?

Mrs. STOKES. They left that home there.

Mr. SIMON. At your home?

Mrs. STOKES. Yes.

Mr. SIMON. Did they tell you how to fill out the forms?

Mrs. STOKES. Yes.

Mr. SIMON. Were you told to put in the forms that the loan was for a home improvement even if that wasn't the purpose of the loan?

Mrs. STOKES. Well, every time that I sent these particular people, I would get a consultive—

Mr. SIMON. A what?

Mrs. STOKES. Call to ask them what to put on.

Mr. SIMON. Who would you call?

Mrs. STOKES. Call the office.

Mr. SIMON. Mr. Chisik or Swaab?

Mrs. STOKES. Yes.

Mr. SIMON. What would they tell you to put on?

Mrs. STOKES. After I filled it out I would take the actual facts of the person, and after the blank was filled out they would change it properly.

Mr. SIMON. And by "change it properly" you mean change to put in the things that were necessary in order to get the loan?

Mrs. STOKES. Yes.

Mr. SIMON. For example, if the people wanted the money to pay alimony, they would change it to say it was to repair a house; is that right?

Mrs. STOKES. That is right.

Mr. SIMON. Were you also instructed to overstate the amount of the loan?

Mrs. STOKES. Yes; everything on there. I mean everything; I never put anything on the blanks that I wasn't told to put on.

Mr. SIMON. Told by whom?

Mrs. STOKES. Told by them.

Mr. SIMON. Who is "them"?

Mrs. STOKES. The company, Mr. Chisik or Mr. Swaab.

Mr. SIMON. If the people wanted, say, a thousand dollars, would they tell you to make the loan out for \$1,500?

Mrs. STOKES. No; if the people wanted a thousand, they would make it out for a thousand.

Mr. SIMON. Where did you get your money then?

Mrs. STOKES. I was paid. They would pay me.

Mr. SIMON. Who would pay you?

Mrs. STOKES. Mr. Swaab would pay me; when I was paid.

Mr. SIMON. What was the average amount of money that Chisik and Swaab took from these loans?

Mrs. STOKES. I don't know exactly that. I could just give an estimation, which might not be just true.

Mr. SIMON. What is your estimation?

Mrs. STOKES. One loan I think was about \$250, so the person would tell me, Mrs. Redmond said she paid him \$250, and I know I carried a loan for Mr. Thompson for \$300 out to Mr. Swaab.

Mr. SIMON. You carried \$300 out to Mr. Swaab?

Mrs. STOKES. Yes.

Mr. SIMON. Where did you get the \$300?

Mrs. STOKES. She gave it to me to carry to him to pay him.

Mr. SIMON. Going back to the Redmond loan, did you go to the bank with Mrs. Redmond?

Mrs. STOKES. Yes, but I didn't go in. I stayed in the car.

Mr. SIMON. She picked up the check?

Mrs. STOKES. Yes.

Mr. SIMON. Then you and she drove out to Mr. Chisik's place?

Mrs. STOKES. That is right.

Mr. SIMON. Did you take the check in to Mr. Chisik?

Mrs. STOKES. No, I didn't. She carried it in herself.

Mr. SIMON. She stayed in the car and you carried it in?

Mrs. STOKES. No. She carried her own check in. I didn't see the check. She carried the check in and gave it to Mr. Swaab herself.

Mr. SIMON. How much did you get out of the deal?

Mrs. STOKES. They didn't want to pay me anything out of it. We got into an awful argument.

Mr. SIMON. You did?

Mrs. STOKES. With Mr. Swaab, because he told me he couldn't afford to pay me anything out of that; that expense was heavy on him.

Mr. SIMON. What was his expense?

Mrs. STOKES. I don't know. Those things they never told us. We didn't ask.

Mr. SIMON. Did you finally get paid anything?

Mrs. STOKES. I started off and Mr. Chisik was talking to him telling him he should give me something, so after I went down the street he called me back and gave me \$30.

Mr. SIMON. \$30?

Mrs. STOKES. That is right.

Mr. SIMON. In the loan for Cedarpoint Thompson, did she give you \$200, you say?

Mrs. STOKES. Yes. She gave me \$200 for myself and she gave me three to carry to Mr. Swaab.

Mr. SIMON. She gave you a total of \$500?

Mrs. STOKES. Yes.

Mr. SIMON. You kept \$200?

Mrs. STOKES. Yes.

Mr. SIMON. You carried \$300 to Mr. Swaab?

Mrs. STOKES. Yes.

Mr. SIMON. Did Mr. Swaab know you were keeping \$200?

Mrs. STOKES. No. This was a personal thing between Mrs. Thompson and myself. I didn't know her.

Mr. SIMON. You didn't know her?

Mrs. STOKES. No. I never saw her until the day Mr. Chisik drove me to her house and he filled out the application there for a loan. That is the first day I saw her. Now, a cousin of mine, Mrs. Douglas, told me that Mrs. Thompson had a deposit on a home, and she said, "You are working for this company, that you can get loans through," she said, "Would you help her to raise the money to buy this place?" So I says, "Well, I will try, and send her to the people." So later, after she was off work, after 5 o'clock, she called me and asked me, she told me what Mrs. Douglas had told her, so I told her, "Well, I could call the boss and see what he says about it." So the next morning I told him about 11 o'clock, he picked me up and for me to help him find a home where she was living, so we went there. She told me, she says, "If I am able to get this place," she said, "I will get it from the owner. I will save at least a couple of thousand dollars on the home. I would be more than glad to give you \$300 for yourself."

She asked me not to tell this friend of hers that introduced us because she would be angry and expecting me to give her something, and I didn't tell her and I just told her "All right."

Mr. SIMON. While you were working for Mr. Chisik, making these loans, was your sister doing the same kind of work for Mr. Helies?

Mrs. STOKES. I don't know. We wasn't living together at that time.

Mr. SIMON. We had a slip of paper from the bank yesterday showing that Mr. Helies gave her a check for \$525 that bounced. Do you know anything about that check?

Mrs. STOKES. I heard her talk about it.

Mr. SIMON. What did she say about that check?

Mrs. STOKES. Nothing except the same thing you said, it wasn't O. K.

Mr. SIMON. What was that money for?

Mrs. STOKES. Now those are the questions that if I would answer I might not be saying the right thing as far as she is concerned.

Mr. SIMON. She was out making loans like this for Mr. Helies; wasn't she?

Mrs. STOKES. Yes, but all of those things about her I can't answer.

Mr. SIMON. You do know she was out making loans from Mr. Helies?

Mrs. STOKES. Yes, I know she was working there.

The CHAIRMAN. You do not know the details of some of these loans?

Mrs. STOKES. I don't know the details.

Mr. SIMON. You had a falling out with Mr. Stokes over these matters; is that right?

Mrs. STOKES. Mr. Stokes?

Mr. SIMON. I mean Mr. Swaab.

Mrs. STOKES. Yes, we did.

Mr. SIMON. And you complained that you weren't getting paid enough; is that right?

Mrs. STOKES. That is right.

Mr. SIMON. How many of these cases did you bring to him?

Mrs. STOKES. I brought Redmond, Davidson, and Mrs. Thompson.

Mr. SIMON. Those three?

Mrs. STOKES. That is right.

Mr. SIMON. How much did you get paid on the Davidson case?

Mrs. STOKES. On the Davidson case he gave me \$50.

Mr. SIMON. What did Mrs. Davidson do with that money?

Mrs. STOKES. She bought the home that she is now living in.

Mr. SIMON. How much did Chisik get?

Mrs. STOKES. I don't know. Mrs. Davidson paid him. I don't know.

Mr. SIMON. How much did Davidson borrow?

Mrs. STOKES. Let me tell you this: I never knew how much they get. The only thing I would do is figure out 5 percent for myself. To me it was just a job.

Mr. SIMON. You do know the Davidsons did not use the money to repair or modernize a home; is that right?

Mrs. STOKES. That is right.

Mr. SIMON. Did Mr. Chisik talk to you after the time the FBI had talked to you or about that time?

Mrs. STOKES. He talked to me before the FBI talked to me.

Mr. SIMON. What did he tell you?

Mrs. STOKES. He told me it would be an investigation, the FBI's were coming, and that my boy friend had gone down to the FBI office, and told them that I was working with this company. He told me about that. My boy friend was the cause of me taking the job. At the time I wasn't getting ADC.

Mr. SIMON. What?

Mrs. STOKES. Getting aid from the ADC. They told me to get a job.

Mr. SIMON. What is ADC?

Mrs. STOKES. That is Aid for Dependent Children. I have five. I have six now. The only thing that I was getting was a \$90 social security, see, and they told me to get a job. I had a heart attack after my husband died and I wasn't well, so he urged me to take the job.

Mr. SIMON. Who urged you to take the job?

Mrs. STOKES. My boy friend. It would be an easy job, just canvassing, and he said, "You could work on your spare time." After then he told me he thought there was something fishy about the companies and he urged me to take the job so he could find out. What point it was, I don't know.

Mr. SIMON. What was his business?

Mrs. STOKES. He said he worked with the FBI's afterward.

Mr. SIMON. Your boy friend?

Mrs. STOKES. Yes.

Mr. SIMON. What else did Chisik tell you when he talked to you?

Mrs. STOKES. That is what he told me, not to talk to them, and don't give them any information. If they ask me if I work for the company, say "No," because if I told them I would be in dutch, as deep in dutch as he was because I was working for them.

Mr. SIMON. Did he ever threaten you?

Mrs. STOKES. No more than that, just tell me don't talk, that is all.

Mr. SIMON. Hadn't your sister had a little trouble with the FBI before you started making these loans?

Mrs. STOKES. No.

Mr. SIMON. She hadn't?

Mrs. STOKES. She hadn't had any trouble, not at all. Not as I know of. I have known her for all my life.

Mr. SIMON. You were asked this question when you were interviewed in Washington:

What are these complications that Doris, your sister, had with Mr. Helies? And you said:

Well, the first thing that she knew, the FBI came there because she had turned in some people that her boss said the loans were turned down on.

Mrs. STOKES. She had worked for him before that happened.

Mr. SIMON. She worked for Mr. Helies before you went to work for Mr. Chisik?

Mrs. STOKES. I think about the same time. I am not quite sure.

Mr. SIMON. Then you went on to say:

They came there and contacted these people and asked them about paying on the loans or something and the people said they didn't have any loans.

Do you remember that?

Mrs. STOKES. That is right.

Mr. SIMON. Wasn't that making or getting money from the banks on people who didn't sign any notes?

Mrs. STOKES. Yes. That is all I can see it is.

Mr. SIMON. You knew that, that your sister had done that before you got into this; didn't you?

Mrs. STOKES. No. You mean before I started working for the Universal Jalousies?

Mr. SIMON. Yes.

Mrs. STOKES. No. She hadn't any complications with the FBI or anybody.

Mr. SIMON. When did you learn that your sister had been making loans with people who said they didn't have any loans?

Mrs. STOKES. The FBI came to us at the same time and told us that. They interviewed both of us together.

Mr. SIMON. What is the story on your sister making loans for people who said they didn't have any loans?

Mrs. STOKES. We didn't know anything about the people not having a loan until the FBI's came to her.

Mr. SIMON. What did you find out then?

Mrs. STOKES. They asked her was she familiar with these particular loans and she says, "Yes; I know the people and they did turn in the loans."

Mr. SIMON. Who turned in the loans?

Mrs. STOKES. You know, she turned in the loans to her company.

Mr. SIMON. And her company was Mr. Helies?

Mrs. STOKES. Yes. She says but they wasn't O. K.'d, because he said so.

Mr. SIMON. Is there any connection between Mr. Helies and Mr. Chisik?

Mrs. STOKES. I don't know Mr. Helies, that I know of. If I ever saw him, the only time I did see him was the time I went to his home. That was the first time and the last time.

Mr. SIMON. His wife testified yesterday that you went to his home and asked him for some money to hire a lawyer. Is that right?

Mrs. STOKES. No. I went to him to see if he could find Mr. Chisik.

Mr. SIMON. Why did you go to him to find Mr. Chisik?

Mrs. STOKES. My sister said he probably knew him.

Mr. SIMON. When did you go to Mr. Helies' home?

Mrs. STOKES. Back when I had received a call telling me the FBI's were coming there and they did come that morning. That evening I was——

Mr. SIMON. Who did you receive the call from?

Mrs. STOKES. I received the call from Cedarpoint Thompson.

Mr. SIMON. And she told you the FBI was coming?

Mrs. STOKES. Yes; the investigation.

Mr. SIMON. When was this?

Mrs. STOKES. Back in December, I believe it was.

Mr. SIMON. December?

Mrs. STOKES. Yes.

Mr. SIMON. Did you then go to Mr. Helies' home?

Mrs. STOKES. Yes.

Mr. SIMON. What did you say to him?

Mrs. STOKES. I asked him did he know Jack Chisik, and he told me "Yes."

Mr. SIMON. Did you ask him for money?

Mrs. STOKES. I didn't ask him for a penny. I would look silly to ask him for some money. I didn't ask him for a dime. I told him, I said, "You see Mr. Chisik, he came and told me the FBI was coming and he was going to hire me an attorney for me not to talk." I said, "I don't know where to get in touch with him any more." I said, "If you know him and see him, would you tell him to bring me some money to get an attorney, if he don't want me to talk?"

Mr. STOKES. You didn't ask Mr. Helies?

Mrs. STOKES. No. I didn't know Mr. Helies. I never worked for him and had no reason to ask him for money.

Mr. SIMON. You told him if he wanted you not to talk he had better get you an attorney?

Mrs. STOKES. That is right. Afterward I didn't hear from him any more.

Mr. SIMON. Is the reason you talked because he didn't get you an attorney?

Mrs. STOKES. No. He didn't get me an attorney. The reason I talked was I figured I should have. I had worked, I was in it and might as well see the whole thing out.

The CHAIRMAN. Thank you. You might remain if you will, please, for a little while.

Mr. SIMON. Did you get some of these loans yourself?

Mrs. STOKES. I got a loan when I first met Mr. Chisik.

Mr. SIMON. That is how you met him?

Mrs. STOKES. Yes.

Mr. SIMON. How much did you borrow?

Mrs. STOKES. \$1,500.

Mr. SIMON. Were you working at the time you borrowed the money?

Mrs. STOKES. No.

Mr. SIMON. Were you on relief?

Mrs. STOKES. No.

Mr. SIMON. Were you on ADC?

Mrs. STOKES. No. I didn't get ADC. I had rented my homes. I had moved on the first floor, the living room and dining room, and rented the bedrooms.

Mr. SIMON. You weren't working, though?

Mrs. STOKES. No.

Mr. SIMON. What did you do with that \$1,500?

Mrs. STOKES. Every bit was used in my home. It is there. You can see it.

Mr. SIMON. What did you use it for?

Mrs. STOKES. The basement was made into an apartment for an income, with plastered walls.

Mr. SIMON. Who did the work?

Mrs. STOKES. I got five people to do the work. I got the plumber and the electrician from Art Enterprises.

Mr. SIMON. Did Mr. Chisik do any of that work?

Mrs. STOKES. No.

Mr. SIMON. He just gave you the money?

Mrs. STOKES. That is right.

Mr. SIMON. How much did he charge you for it?

Mrs. STOKES. Let me tell you, it was gotten in my daddy's name, and when daddy, then he carried daddy over there and he gave the money in their hands.

Mr. SIMON. Who did?

Mrs. STOKES. Mother and daddy in their hands.

Mr. SIMON. Who gave them the money?

Mrs. STOKES. Mr. Chisik, after they came out of the bank.

Mr. SIMON. Didn't your mother and father get a check from the bank?

Mrs. STOKES. No, they got money.

Mr. SIMON. Did Mr. Chisik sign their name to the check?

Mrs. STOKES. It wasn't a check. They gave him cash.

Mr. SIMON. How much did Mr. Chisik keep?

Mrs. STOKES. That is what I am telling you now, \$250.

Mr. SIMON. You kept \$250?

Mrs. STOKES. Yes.

Mr. SIMON. That was an FHA loan?

Mrs. STOKES. That is right.

The CHAIRMAN. Thank you very much. If you will remain around, please. You may go now.

The next witness will be Mr. Joyce A. Schnackenberg. Mr. Schnackenberg, will you be sworn?

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

**TESTIMONY OF JOYCE A. SCHNACKENBERG, BATTLE CREEK, MICH.,  
ACCOMPANIED BY PAUL E. CHOLETTE, COUNSEL**

Mr. SCHNACKENBERG. I do. No pictures, please.

The CHAIRMAN. It is the wish of the witness that there be no photographs taken, and in line with the policy of this committee, respecting the request of the witness, the photographers will please not take any photographs.

The CHAIRMAN. Will you give us your full name and address?

Mr. SCHNACKENBERG. Joyce A Schnackenberg.

The CHAIRMAN. You live where?

Mr. SCHNACKENBERG. 104 Maple Terrace, Battle Creek, Mich.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Schnackenberg, were you connected with FHA?

Mr. SCHNACKENBERG. Yes, sir.

Mr. SIMON. During what period of time?

Mr. SCHNACKENBERG. 1935 to 1953.

Mr. SIMON. 1935 to 1953. Is that right?

Mr. SCHNACKENBERG. That is right.

Mr. SIMON. Do you remember when you started in 1935 with them?

Mr. SCHNACKENBERG. I can't tell you the exact month.

Mr. SIMON. When did you leave in 1953?

Mr. SCHNACKENBERG. January 20, 1953.

Mr. SIMON. January 20, 1953. What was your position with FHA?

Mr. SCHNACKENBERG. During the entire time or when I left?

Mr. SIMON. When you left.

Mr. SCHNACKENBERG. I was director.

Mr. SIMON. Director of the Grand Rapids office?

Mr. SCHNACKENBERG. Of the Grand Rapids office.

Mr. SIMON. And what was the geographical area covered by that office?

Mr. SCHNACKENBERG. It covered 67 counties bounded on the east by Midland, the territory run down—

Mr. SIMON. Was it roughly the western half of Michigan?

Mr. SCHNACKENBERG. It was more than half.

Mr. SIMON. Roughly two-thirds?

Mr. SCHNACKENBERG. There was 83 counties, I believe, in Michigan.

Mr. SIMON. You had 67 of the 83 counties in the western part of the State?

Mr. SCHNACKENBERG. Western and northern.

Mr. SIMON. As director, you were the top man?

Mr. SCHNACKENBERG. Well, that is not exactly true.

Mr. SIMON. You were the top man in the office?

Mr. SCHNACKENBERG. Administratively, I was top man, yes.

Mr. SIMON. You had a zone commissioner who was over you and covered 8 or 10 States?

Mr. SCHNACKENBERG. Yes, but the underwriting and administrative end in FHA is entirely separate.

Mr. SIMON. Except the director is the man who finally signs the commitments?

Mr. SCHNACKENBERG. That is right. The decision underwriting which is made by the underwriting department.

Mr. SIMON. Excepting the director can overrule them by refusing to sign the commitment?

Mr. SCHNACKENBERG. That is right.

Mr. SIMON. How long were you director of the office?

Mr. SCHNACKENBERG. From November 1, 1948.

Mr. SIMON. From 1948 to 1953?

Mr. SCHNACKENBERG. That is right.

Mr. SIMON. Do you have a brother Rex?

Mr. SCHNACKENBERG. I do.

Mr. SIMON. What is his business?

Mr. SCHNACKENBERG. He is in the contracting business.

Mr. SIMON. How long has he been in the contracting business?

Mr. SCHNACKENBERG. About 1940—I will have to give you the best of my recollection because I can't tell you exactly, but I would say 1946—1946 to the present time.

Mr. SIMON. Were the homes projects you built all insured by FHA?

Mr. SCHNACKENBERG. I can't tell you that. I don't believe all of them were.

Mr. SIMON. Were substantially all of them insured by FHA?

Mr. SCHNACKENBERG. That is correct. Every case went to Washington for approval.

Mr. SIMON. Are you acquainted with a project known as Marshall Homes, Inc.?

Mr. SCHNACKENBERG. I am.

Mr. SIMON. That is a corporation?

Mr. SCHNACKENBERG. That is right.

Mr. SIMON. What was their business?

Mr. SCHNACKENBERG. They were in the house building business. They built National Home Prefabs.

Mr. SIMON. Was there any connection between Marshall Homes, Inc., and National Homes Prefab?

Mr. SCHNACKENBERG. What do you mean "connection"?

Mr. SIMON. Was Marshall Homes the dealer for National Homes?

Mr. SCHNACKENBERG. That is right.

Mr. SIMON. Did the stockholders of National Homes own any stock in Marshall Homes?

Mr. SCHNACKENBERG. That I don't know.

Mr. SIMON. Did the stockholders of Marshall Homes own any stock in National Homes?

Mr. SCHNACKENBERG. That I don't know.

Mr. SIMON. What I am trying to find out, if there was any connection between them other than the fact that one distributed the product of the other?

Mr. SCHNACKENBERG. I don't believe there was. I am not sure.

Mr. SIMON. Who were the stockholders of Marshall Homes, Inc.?

Mr. SCHNACKENBERG. All I can tell you is hearsay because I am not a stockholder, and haven't access to the records.

Mr. SIMON. Let me ask you this: Who did you understand were the stockholders of Marshall Homes?

Mr. SCHNACKENBERG. I understand the stockholders of Marshall Homes is Faye G. West and Rex Schnackenberg.

Mr. SIMON. Just the two of them?

Mr. SCHNACKENBERG. Yes.

Mr. SIMON. Have you ever heard of Battle Creek Homes, Inc.?

Mr. SCHNACKENBERG. Yes, sir.

Mr. SIMON. And what is that business?

Mr. SCHNACKENBERG. The same business.

Mr. SIMON. Who did you understand were the stockholders of Battle Creek Homes?

Mr. SCHNACKENBERG. The same.

Mr. SIMON. Faye West and Rex Schnackenberg?

Mr. SCHNACKENBERG. That is right.

Mr. SIMON. Rex is your brother?

Mr. SCHNACKENBERG. That is right.

Mr. SIMON. Now have you ever heard of Albion Homes, Inc.?

Mr. SCHNACKENBERG. That is right.

Mr. SIMON. What is the business of Albion Homes?

Mr. SCHNACKENBERG. Same thing.

Mr. SIMON. Who did you understand were the stockholders?

Mr. SCHNACKENBERG. The same.

Mr. SIMON. What about 20th Century Homes?

Mr. SCHNACKENBERG. The same thing.

Mr. SIMON. The same stockholders? Same business?

Mr. SCHNACKENBERG. So far as I know; yes.

Mr. SIMON. You understood that?

Mr. SCHNACKENBERG. That is right.

Mr. SIMON. Was there an employee of the FHA office in Grand Rapids named Mrs. T. Maurine Anderson?

Mr. SCHNACKENBERG. Yes, sir.

Mr. SIMON. Did you ask her to prepare FHA applications and do other work for these companies?

(Conference between witness and counsel.)

Mr. SCHNACKENBERG. That matter has been before the grand jury, and gentlemen, I am sorry, it has been fully explored, and I will stand on my constitutional right under the fifth amendment and refuse to answer any questions on the basis of self-incrimination.

Mr. SIMON. I would like to read to you a statement that Mrs. Anderson made and ask you if this is true:

Mrs. Anderson stated that sometime in July 1950 Mr. Joyce Schnackenberg, district director, asked her to do some typing of notes and mortgages in connection with commitments for loans on houses built by corporations operated by Mr. Rex Schnackenberg; that Mr. Joyce Schnackenberg stated that she would receive \$5 per set for doing the typing; that thereafter she typed notes and mortgages in connection with commitments to Marshall Homes, Battle Creek Homes, Albion Homes, and 20th Century Homes, all allegedly operated and owned by Rex Schnackenberg and Faye West.

Mrs. Anderson stated that Joyce Schnackenberg usually brought to her in the office of the FHA a copy of the builder's commitment. That he also furnished her with the date of the first payment on the note and the property description; that thereafter she would prepare the note and mortgage, using the information in the commitment and the information furnished her by Joyce Schnackenberg.

Mrs. Anderson stated she did most of the work at home at night and in the office after working hours. That she received \$5 per set for typing mortgage and note, and to the best of her recollection received approximately \$660.

The money was paid to her by checks of the various corporations, which checks were delivered to her by Rex Schnackenberg; that the checks included payments to Donna Perkinson, no longer with FHA, who also typed notes and mortgages and to the best of her recollection received approximately the same amount of money as she, Mrs. Anderson, received.

Mrs. Anderson stated that this was done over a period from July 1950 to April 1952, and she did not question the request of Mr. Joyce Schnackenberg in connection with this work since it came from him.

She believed everything to be regular. Mrs. Anderson continued and stated in connection with her outside activity affidavit dated January 9, 1952, in which she stated that she had no outside activities, that she consulted Joyce Schnackenberg before she prepared this affi-

davit; that Mr. Schnackenberg told her that it was not necessary to report the work she was doing in connection with Rex Schnackenberg developments, and therefore she reported her outside activities as "none."

Is that true?

Mr. SCHNACKENBERG. I will take the same position that I took before. It is part of the same question and I refuse to answer, based on the fifth amendment.

Mr. SIMON. Mrs. Anderson also stated that twice a month, and during some months every week, Joyce Schnackenberg gave her 2 checks for \$125 or \$135 each, with the request that she cash the checks and give the money to him, that these checks were made by Rex Schnackenberg and Faye West as individuals.

The checks made by Rex Schnackenberg were payable to Faye West and checks made by Faye West were payable to Rex Schnackenberg. That the checks always bore the endorsements of the payees, but were not endorsed by Mr. Joyce Schnackenberg.

That she affixed her endorsement to each check, and presented them to the Michigan National Bank and turned the money over to Mr. Joyce Schnackenberg.

She stated that after the FBI started its investigation, Mr. Schnackenberg called her in the office and stated words to the effect "You know I gave the money on those checks to Rex and Faye."

Is that true?

Mr. SCHNACKENBERG. I will take the same position and stand on the fifth amendment and refuse to answer on the basis of self-incrimination.

Mr. SIMON. Did you ask an employee of the office of FHA in Grand Rapids named Tiefels, to do the accounting work for these corporations?

(Conference between counsel and witness.)

Mr. SCHNACKENBERG. This matter has been before the grand jury, fully explored. I will take the same position. I will stand on my constitutional rights and refuse to answer any questions on the basis of the fifth amendment.

The CHAIRMAN. Did you plead guilty to these charges?

Mr. SCHNACKENBERG. Yes. I will answer that question, if you will let me qualify it.

The CHAIRMAN. Did you plead guilty to some charges?

Mr. SCHNACKENBERG. To a charge. If you will allow me to explain the charge—

Mr. SIMON. We have the indictment here. It was indictment 5714 and it related to accounting work done by Francis J. Tiefels.

Mr. SCHNACKENBERG. I plead guilty to knowing Frank Tiefels did some accounting work.

Mr. SIMON. We now ask you whether you asked Tiefels to do accounting work for these corporations.

Mr. SCHNACKENBERG. I will stand on my constitutional right and refuse to answer the question on the basis of the fifth amendment.

Mr. SIMON. What was the relationship between you and Faye West?

(Conference between witness and counsel.)

Mr. SCHNACKENBERG. I will stand on my constitutional rights and refuse to answer that question.

Mr. SIMON. Isn't it a fact that at least part of the stock in these companies that she owned was your stock?

(Conference between witness and counsel.)

Mr. SCHNACKENBERG. I deny that point.

Mr. SIMON. You deny that any of the stock that she owned was owned by you?

Mr. SCHNACKENBERG. Yes, sir.

Mr. SIMON. Then why do you say your relationship with Faye West might tend to incriminate you?

Mr. SCHNACKENBERG. I will stand on my constitutional right and refuse to answer that.

Mr. SIMON. You refuse to explain why, if you had no interest in her stock in those companies, your answer of the relationship between you and her might tend to incriminate you?

(Conference between witness and counsel.)

Mr. SCHACKENBERG. I will still stand on them.

Mr. SIMON. Now, you know Knecht and Colton?

Mr. SCHNACKENBERG. Knecht, it is pronounced—Fred Knecht.

Mr. SIMON. Yes. Do you know them?

Mr. SCHNACKENBERG. Yes, sir.

Mr. SIMON. Were they employees of the FHA office while you were the State director?

Mr. SCHNACKENBERG. Yes, sir.

Mr. SIMON. Did you know that they were partners in an architectural firm doing work that was approved by FHA?

Mr. SCHNACKENBERG. That matter was all so thoroughly gone into before the grand jury and I will stand on my constitutional right under the fifth amendment and refuse to answer that question.

Mr. SIMON. On the grounds that you might tend to incriminate yourself, you refuse to say whether you knew that they had an architectural firm doing work that was subsequently submitted to FHA?

Mr. SCHNACKENBERG. Yes, sir.

You said they had a partnership.

Mr. SIMON. Partnership; yes.

Mr. SCHNACKENBERG. That is right.

The CHAIRMAN. Thank you very much.

You are excused.

(Witness excused.)

The CHAIRMAN. Our next witness will be Mr. Fred W. Knecht. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF FRED W. KNECHT, ROCKFORD, MICH.

Mr. KNECHT. I do.

The CHAIRMAN. You may be seated and give your name and address to the reporter.

Mr. KNECHT. I am Fred W. Knecht, Rockford, Mich.

Mr. SIMON. What is your address in Rockford, Mr. Knecht?

Mr. KNECHT. 8950 Northland Drive.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Were you connected with FHA?

Mr. KNECHT. Yes, sir.

Mr. SIMON. During what period of time?

Mr. KNECHT. From February 1949 until December 1952.

Mr. SIMON. What was your position with FHA?

Mr. KNECHT. Construction cost examiner, and finally as chief architect.

Mr. SIMON. What period of time were you chief architect?

Mr. KNECHT. I can't exactly say that. I think it was probably the last 3 or 4 months of the employment with FHA.

Mr. SIMON. What were the duties of the construction examiner position that you previously held?

Mr. KNECHT. The construction cost examiner was a field man who ascertained costs of material and labor in the area that we served.

Mr. SIMON. And he made those estimates of cost based on the plans and specifications submitted by the architect for the sponsors?

Mr. KNECHT. No. The construction cost examiner's duties were merely to get those costs and the actual processing and estimating of the projects was done by, I don't know what his title would be.

Mr. SIMON. Do you know a man named Colton?

Mr. KNECHT. Yes, sir.

Mr. SIMON. Was he with FHA?

Mr. KNECHT. Yes, sir.

Mr. SIMON. During what period of time?

Mr. KNECHT. I cannot say but he was with FHA for a considerable period. I would say prior to 1940 and until 1952.

Mr. SIMON. Were you and he partners in an architectural firm?

Mr. KNECHT. We have been since 1921. We organized a partnership and we practiced architecture as a partnership until 1950, I think it was.

Mr. SIMON. Were you partners in an architectural firm in the years 1949 through 1952?

Mr. KNECHT. Yes, sir.

Mr. SIMON. And where did that firm have its offices?

Mr. KNECHT. Well, it had its offices in three locations.

Mr. SIMON. Three offices?

Mr. KNECHT. Three locations.

Mr. SIMON. But not all at the same time?

Mr. KNECHT. No.

Mr. SIMON. Was one of them in Grand Rapids in the same building with the FHA offices?

Mr. KNECHT. Yes, sir.

Mr. SIMON. What was the name of that building?

Mr. SIMON. Was the architectural office room 504?

Mr. KNECHT. At that time it was called the National Bank Building.

Mr. KNECHT. Yes, sir.

Mr. SIMON. Was there a man named Opperman in that office?

Mr. KNECHT. Yes, sir.

Mr. SIMON. Who was Opperman employed by?

Mr. KNECHT. Opperman was employed—primarily I hired Opperman.

Mr. SIMON. You hired him?

Mr. KNECHT. Yes.

Mr. SIMON. Did you pay him?

Mr. KNECHT. No.

It came out of joint funds.

Mr. SIMON. Whose joint funds?

Mr. KNECHT. Colton's and mine.

Mr. SIMON. Would you make a distinction between joint funds and partnership funds? Is that the same thing?

Mr. KNECHT. For all practical purposes that would be the same thing.

Mr. SIMON. So Opperman worked for this partnership?

Mr. KNECHT. That is right.

Mr. SIMON. What did he do for the partnership?

Mr. KNECHT. He made plans. He was a draftsman.

Mr. SIMON. Were those plans for FHA-instanced housing projects?

Mr. KNECHT. Yes, sir; for Hill Mount and for West Field and Urban, I believe, and then there were some other jobs that he did outside of FHA, some commercial jobs.

Mr. SIMON. Now in the years 1949 and 1950, 1951, and 1952, what was the gross income of this partnership?

Mr. KNECHT. I can't say that exactly, because I do not have the records.

Mr. SIMON. Was it \$25,000 a year?

Mr. KNECHT. No. I do not think so. I would say that—

Mr. SIMON. Let me ask you this question: How much did you, personally, get out of this partnership operation in those 4 years?

Mr. KNECHT. I would say net to me of somewhere around \$2,500 or \$3,000, possibly.

Mr. SIMON. Each year or in the 4 years?

Mr. KNECHT. Each year. That is an average I think.

Mr. SIMON. So in the 4 years you got \$10,000 or \$12,000?

Mr. KNECHT. That is right.

Mr. SIMON. Did Colton get the same amount?

Mr. KNECHT. The funds were split 50-50.

Mr. SIMON. And that is after paying Opperman his salary for doing the work?

Mr. KNECHT. That is right.

Mr. SIMON. And the rent and everything else?

Mr. KNECHT. That is right.

Mr. SIMON. What happened, did you and Colton have this architectural office and you hired Opperman to do the work?

Mr. KNECHT. That is right.

Mr. SIMON. And you split the profits?

Mr. KNECHT. That is right.

Mr. SIMON. And the work Opperman did was on plans that later had to be submitted to FHA for their approval?

Mr. KNECHT. That is correct.

I think I would like to qualify that statement somewhat.

Mr. SIMON. During all of the period of time we are talking about you were employed by FHA?

Mr. KNECHT. From 1949 to 1952.

The CHAIRMAN. During the period you were getting this \$2,500 a year you were employed by FHA?

Mr. KNECHT. That is right.

The CHAIRMAN. In what capacity?

Mr. KNECHT. As construction cost examiner and finally as chief architect.

The CHAIRMAN. You were passing upon the same plans that your architectural firm was producing?

Mr. KNECHT. In a measure, yes.

Mr. SIMON. And Colton was also working for FHA at the time?

Mr. KNECHT. Yes.

Mr. SIMON. What was his position?

Mr. KNECHT. Chief underwriter.

The CHAIRMAN. Did the State FHA director, Mr. Fred Schnackenberg, know about this?

Mr. KNECHT. He knew about part of them, certainly, because before I went with FHA, I had received permission from Washington that I could complete these projects.

Mr. SIMON. Who did you receive the permission from?

Mr. KNECHT. From Mr. Hicks.

Mr. SIMON. Is he still alive?

Mr. KNECHT. I don't know.

The CHAIRMAN. What was his capacity?

Mr. KNECHT. He was personnel director of FHA.

The CHAIRMAN. I never heard of him.

Mr. KNECHT. He preceded Mr. Bauman.

The CHAIRMAN. What are Hicks' initials?

Mr. KNECHT. I think it is George.

The CHAIRMAN. Did he write you a letter and give you permission to do this outside work?

Mr. KNECHT. Yes, sir.

The CHAIRMAN. Do you have that letter with you?

Mr. KNECHT. I don't have that letter. It is a matter of record.

The CHAIRMAN. A matter of record where?

Mr. KNECHT. Both in my personnel file at Washington, and it is a matter of—

(Picture taken.)

Mr. KNECHT. I requested no pictures.

The CHAIRMAN. This gentleman requested no pictures and in line with our policy, we will have to not use it if you will please because we want to be absolutely fair with all witnesses and follow the rules.

I am sorry. I guess you were not here when he requested that. It is not your mistake. It is perfectly all right.

Mr. KNECHT. That record is part of the personnel file.

The CHAIRMAN. Did you personally, when you sat down, request that no photographs be made?

Mr. KNECHT. I did. I don't know as I said it then. I said it prior to that. The photographers were not in the room when I came down to the witness stand.

Mr. SIMON. Now, Mr. Knecht, was there an instance where you put the name of an architect on some plans who did not draw them, because if you put your own name on, the plans would have had to have gone to Washington?

Mr. KNECHT. That is right, sir.

Mr. SIMON. What was the name of that architect?

Mr. KNECHT. O'Brien.

Mr. SIMON. What is O'Brien's full name?

Mr. KNECHT. I think it is C. W.

Mr. SIMON. C. E. O'Brien?

Mr. KNECHT. Yes.

Mr. SIMON. What were the plans his name was put on?

Mr. KNECHT. His name was put on the Westfield Hills, and Urbana, and Bonign.

Mr. SIMON. Who actually drew those plans?

Mr. KNECHT. The plans for Westfield Hills and Urbana were drawn by Mr. Opperman.

Mr. SIMON. Who drew the third set?

Mr. KNECHT. The Bonign.

Mr. SIMON. And O'Brien did not have them?

Mr. KNECHT. Not of the actual drawing.

The CHAIRMAN. Yet you put his name on?

Mr. KNECHT. That is right.

Mr. SIMON. If your name had been on them, you could not have worked on them?

Mr. KNECHT. No. The reason for putting his name on, sir, was the fact that if my name had been put on, it would have had to have gone to Washington for review and in addition to that, the appropriation in both instances were at the point of termination and it would have meant a loss to the sponsor.

Mr. SIMON. So in order to avoid that you put O'Brien's name on it?

Mr. KNECHT. That is correct.

Mr. SIMON. But you got the fee from the sponsor for drawing the plans?

Mr. KNECHT. That is right.

Mr. SIMON. Did Mr. Schnackenberg know about that?

Mr. KNECHT. I never discussed that with Mr. Schnackenberg. I can't say definitely whether he did.

Mr. SIMON. Do you know whether Mr. Colton discussed it with him?

Mr. KNECHT. I do not know.

Mr. SIMON. During the time that you and Mr. Colton were with FHA, did you ever ask the office manager to deposit your architectural funds in the bank, send her to the bank for you?

Mr. KNECHT. I don't know as I ever did ask her to do that. I know they were deposited by the office manager, or—no, I think Tiefels was the office manager, but Mrs. Anderson deposited the funds.

Mr. SIMON. Mrs. Anderson would do the banking for this partnership?

Mr. KNECHT. That is right.

Mr. SIMON. She was the FHA employee?

Mr. KNECHT. That is right.

Mr. SIMON. Of course since banks are only opened in the middle of the day she had to be doing that on FHA time?

Mr. KNECHT. Well, she did that during her noon hour generally.

Mr. SIMON. She gave up part of her noon hour to do your banking; is that right?

Mr. KNECHT. Making those deposits. I presume so.

Mr. SIMON. Did you partnership ever pay Mrs. Anderson for that work?

Mr. KNECHT. No, sir.

Mr. SIMON. Thank you.

The CHAIRMAN. Thank you very much.

Our next witness will be Mr. Harry Colton of Grand Rapids.

Mr. COLTON. You will be sworn in. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

**TESTIMONY OF HARRY COLTON, GRAND RAPIDS, MICH.**

Mr. COLTON. I do.

The CHAIRMAN. Did you request there be no photographs?

Mr. COLTON. I did.

The CHAIRMAN. We can only protect you of course during the time you are sitting in the witness chair.

I want that understood.

Mr. SIMON. Mr. Colton, will you give your full name and address to the reporter?

Mr. COLTON. Harry L. Colton, 545 Cheshire Drive, Grand Rapids.

Mr. SIMON. Your occupation?

Mr. COLTON. Architect.

Mr. SIMON. Could you talk a little louder?

Mr. COLTON. Architect.

Mr. SIMON. Were you connected with FHA?

Mr. COLTON. I was.

Mr. SIMON. During what period of time?

Mr. COLTON. March 1, 1939, to December 20, 1952.

Mr. SIMON. 1929?

Mr. COLTON. 1939.

Mr. SIMON. 1939 to 1952?

Mr. COLTON. That is right.

Mr. SIMON. During what period of time were you the chief underwriter?

Mr. COLTON. November 1, 1948, I think it was when we came in the insuring office?

Mr. SIMON. When you became an insuring office?

Mr. COLTON. When the Grand Rapids office became an insuring office.

I think that was in 1948.

Mr. SIMON. In 1948?

Mr. COLTON. I think that is right.

Mr. SIMON. You became the chief underwriter?

Mr. COLTON. That is right.

Mr. SIMON. Next to the State director the chief underwriter is the top man so far as insuring mortgages are concerned?

Mr. COLTON. Yes.

Mr. SIMON. The valuator makes estimates and architects approve plans and then all that comes to the chief underwriter and he makes the final decisions?

Mr. COLTON. That is right.

Mr. SIMON. During the period of time, 1948 to 1952, were you in a partnership with Mr. Knecht?

Mr. COLTON. I was.

Mr. SIMON. You heard his testimony here this morning?

Mr. COLTON. Yes. I will confirm all of his testimony.

Mr. SIMON. If we asked you the same questions we asked him would you give the same answers?

Mr. COLTON. That is correct.

Mr. SIMON. Except I believe it was you who asked Mrs. Anderson to do this banking?

Mr. COLTON. I would like to qualify that just a trifle.

Mr. SIMON. All right.

Mr. COLTON. I don't think there was over a couple of occasions when that happened, when she happened to be going to the bank.

Mr. SIMON. She said it was 6 or 8. Would you disagree with that?

Mr. COLTON. During the period of 4 years that might be true.

Mr. SIMON. Did you ever discuss this situation with Joyce Schnackenberg?

Mr. COLTON. About what?

Mr. SIMON. The fact that you and Knecht had this firm that was doing work on plans that later had to be approved by FHA?

Mr. COLTON. Well, I can't answer that direct. I will have to give you a little discussion on that.

Mr. SIMON. My question is whether you discussed it with him?

Mr. COLTON. No, not particularly that I know of.

Mr. SIMON. You never discussed it with Mr. Schnackenberg, the fact that you were doing this architectural work on the side?

Mr. COLTON. The only thing that was ever discussed, were these jobs that were approved by Washington for Mr. Knecht.

Mr. SIMON. Wasn't it common knowledge to everybody in the office that you and Knecht had this room 504 with Opperman doing architectural work down there for you?

Mr. COLTON. That was a very short period.

Mr. SIMON. Whatever existed everybody knew about it, didn't they?

Mr. COLTON. Yes.

Mr. SIMON. It was no secret?

Mr. COLTON. No, no secret at all.

We had a prospective of one of the section 608's up in the office.

Mr. SIMON. One of the section 608's that you drew the plans for?

Mr. COLTON. Yes.

I did not work on them.

Mr. SIMON. You got paid for the drawing of the plans?

Mr. COLTON. Yes.

Mr. SIMON. Later you——

Mr. COLTON. Indirectly.

Mr. SIMON. The partnership got paid and you paid Opperman a salary and you and Knecht split the balance?

Mr. COLTON. May I say, during this period of 4 years, on these jobs that Mr. Knecht had approval on, I was working on commercial work.

The CHAIRMAN. You were with FHA, were you not?

Mr. COLTON. Yes.

The CHAIRMAN. What was your title with FHA?

Mr. COLTON. Chief underwriter.

The CHAIRMAN. You were the chief underwriter?

Mr. COLTON. Yes, on underwriting.

The CHAIRMAN. You were approving plans being made by your own architectural firm?

Mr. COLTON. Yes, because we went over everything and they had to conform with FHA requirements.

The CHAIRMAN. That is right.

Mr. COLTON. What I wanted to say, Mr. Simon, was this: That on this commercial work that I was doing during this period of time, the

commissions we received on the commercial work were slightly above the ones received on the apartment house or houses, and therefore, I was not really doing work on any of the jobs, though I was, we did have a joint bank account.

Mr. SIMON. Is there any dispute or any doubt about the fact that Opperman drew plans for FHA projects on which Knecht and you were paid and you each got half the proceeds after paying Opperman his salary?

Mr. COLTON. There is no argument on that.

Mr. SIMON. Thank you very much.

The CHAIRMAN. Thank you. That will be all.

I just want the record to show that Mr. Debbs, former United States district attorney, and Mr. Mills, the present district attorney, formerly deputy, of course, gave us information and worked on this case and uncovered it and were very helpful to us.

Is Mr. Ward present? Is Attorney Ward present?

(No response.)

The CHAIRMAN. Mrs. Stokes, will you return to the stand for one question, please?

You have already been sworn? You may be seated.

#### TESTIMONY OF MRS. RUTH STOKES, DETROIT, MICH.—Resumed

Mr. SIMON. Mrs. Stokes, on September 10, 1954, you were examined in Washington?

Mrs. STOKES. Yes.

Mr. SIMON. And you were asked some questions by a lawyer and they were taken down by a stenographer such as we have here?

Mrs. STOKES. That is right.

Mr. SIMON. At that time you told them about getting a call that the FBI was coming to see you?

Mrs. STOKES. That is right.

Mr. SIMON. And that you went to see Mr. Chisik? Do you remember that?

Mrs. STOKES. That is right.

Mr. SIMON. Then were you asked this question and did you make this answer:

Question. Did he threaten you that something would happen to you if you talk?

Mrs. STOKES. Well, he said it might. He said somebody might kill me.

Mrs. STOKES. That is right.

Mr. SIMON. "He said somebody was going to kill this bill, that is what he said. He said that is bad." Is that right?

Mrs. STOKES. That is right.

The CHAIRMAN. Did he say he was going to kill you?

Mrs. STOKES. No; he didn't say that. He said that was a dangerous thing to do.

Mr. SIMON. And that somebody might kill you?

Mrs. STOKES. Somebody might kill the witnesses or the ones that reported the details.

Mr. SIMON. I asked you 20 minutes ago if he threatened you; you said no.

Mrs. STOKES. That was not his threat. He just said somebody would.

Mr. SIMON. What you meant when you said——

Mrs. STOKES. If you talk a dangerous thing might happen to you.

Mr. SIMON. You say he wasn't threatening you because he personally was not going to do it. Somebody else might do it.

Mrs. STOKES. He just said somebody. I guess they would kill anyone.

The CHAIRMAN. That will be all.

Our next witness will be Mr. Jack Chisik.

Mr. Chisik, come forward, please.

Mrs. STOKES. May I be excused?

The CHAIRMAN. If you will remain until after Mr. Chisik has testified, please.

Will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF JACK CHISIK, DETROIT, MICH., ACCOMPANIED BY  
VINCENT FORDELL, COUNSEL**

Mr. CHISIK. Yes.

The CHAIRMAN. Will you please be seated and give your full name and address for the record?

Mr. FORDELL. I am his counsel, Mr. Chairman.

The CHAIRMAN. You may be seated.

When Mr. Chisik has given his name and address, you may do so.

Mr. CHISIK. Jack Chisik, 19719 Ardmore.

The CHAIRMAN. Detroit, Mich.?

Mr. CHISIK. Yes.

Mr. FORDELL. Vincent Fordell, 1402 Cadillac Tower, Detroit.

The CHAIRMAN. You are the attorney for Mr. Chisik?

Mr. FORDELL. I am.

Mr. SIMON. Mr. Chisik, did you enter the title I home repair business about 1938?

Mr. CHISIK. I believe so.

Mr. SIMON. You have been in that business since that time?

Mr. CHISIK. Yes.

Mr. SIMON. Beginning about 1942, were you engaged with various home improvement companies, either organized by you or in which you were a partner?

Mr. CHISIK. Yes, sir.

Mr. SIMON. In 1950, did you form a partnership with Melvin Kepes, under the name of Advance Construction Co.?

Mr. CHISIK. Yes, sir.

Mr. SIMON. And that concern was a successor to an earlier company known as Glendale Lumber & Supply Co., for which you had been the manager?

Mr. CHISIK. Yes, sir.

Mr. SIMON. During the period of 1949-52, did you have any troubles with the Detroit Better Business Bureau and the Michigan Corporation and Securities Commission on account of your canvassers using the model home pitch and other unethical practices?

Mr. CHISIK. During which time, sir?

Mr. SIMON. 1949-52?

Mr. CHISIK. I don't remember that.

Mr. SIMON. Did you ever have any troubles with the Better Business Bureau on account of your canvassers using the model-home pitch?

Mr. CHISIK. I had a complaint.

Mr. SIMON. Just one?

Mr. CHISIK. That I recall; yes.

Mr. SIMON. You only recall one?

Mr. CHISIK. Yes.

Mr. SIMON. What was the name of that salesman?

Mr. CHISIK. Howard.

Mr. SIMON. Is he the only salesman that you ever heard of that worked for you that used the model-home pitch?

Mr. CHISIK. That was the only one I had a complaint about.

Mr. SIMON. Is that the only one you ever heard about? Isn't it a fact, Mr. Chisik, that your canvassers did use the model-home pitch?

Mr. CHISIK. I don't know. I was not with them.

The CHAIRMAN. Did you ever teach them to use it?

Mr. CHISIK. No.

Mr. SIMON. You don't deny they used it, do you?

Mr. CHISIK. I don't know what they did, sir.

Mr. SIMON. You don't?

Mr. CHISIK. No.

Mr. SIMON. Did you care?

Mr. CHISIK. Yes; I did.

Mr. SIMON. Did you sell on a par basis?

Mr. CHISIK. No, sir.

Mr. SIMON. What was the basis on which your salesmen were compensated, or canvassers if you want to call them that?

Mr. CHISIK. Well, we had an arrangement depending on the type of deal that we handled. If it was a minor deal, we received 10 percent of the gross amount of the sale. If it was a complicated deal——

Mr. SIMON. You received 10 percent?

Mr. CHISIK. Yes.

Mr. SIMON. And the salesmen——

Mr. CHISIK. Received the balance.

Mr. SIMON. Isn't this what happened, that you subcontracted all this work; didn't you?

Mr. CHISIK. No, sir; we had our own employees.

Mr. SIMON. You had your own employees?

Mr. CHISIK. Yes.

Mr. SIMON. When you had your own employees, did you figure out the cost somehow or other?

Mr. CHISIK. Yes.

Mr. SIMON. You got 10 percent off the top?

Mr. CHISIK. Yes.

Mr. SIMON. The salesman got everything else over the cost; is that right.

Mr. CHISIK. Providing the prices were not exorbitant.

Mr. SIMON. Let me ask you this: What was your rule as to determining an exorbitant price?

Mr. CHISIK. Well, I would discuss the deal with the salesman and knowing how to figure construction, I knew whether it was in line or not and it was I accepted the deal. If it was not, I didn't accept it or sent it back to make an adjustment.

Mr. SIMON. How many cases did you refuse to accept because the price was too high?

Mr. CHISIK. A lot of them.

Mr. SIMON. How many?

Mr. CHISIK. I have been in business 15 years. I do not recall how many.

Mr. SIMON. Can you give us say a half dozen?

Mr. CHISIK. Yes.

Mr. SIMON. Let's have them.

Mr. CHISIK. The names you mean?

Mr. SIMON. Yes; the names of the people whose deals you wouldn't accept because the price was too high.

Mr. CHISIK. I can't remember that.

Mr. SIMON. Of all the deals you say you turned down you can't give us the names?

Mr. CHISIK. I haven't been active in this business for a year and a half.

Mr. SIMON. Can you name one or two people whose deals you turned down because the price was too high?

Mr. CHISIK. I can't recall any names.

Mr. SIMON. Can you name just one, of a homeowner we can go out to and talk to whose deal you turned down because the salesman charged too high a price?

Mr. CHISIK. Perhaps I will look up the records. I might find one. I can't remember.

Mr. SIMON. You can't tell us now?

Mr. CHISIK. I can't remember any names.

Mr. SIMON. Now did you have a couple of salesmen working for you by the name of A. A. Fox and Mark Howard?

Mr. CHISIK. Yes.

Mr. SIMON. What did they do they should not have done?

Mr. CHISIK. Well, I know you are referring to two complaints.

Mr. SIMON. I was not referring to anything in particular. I just wanted to know what they did they should not have done.

Mr. CHISIK. I know. You are referring to two deals that came to the attention of the securities commission.

Mr. SIMON. I was hoping you would tell us all the things they did, even those that didn't come to the attention of the securities commission.

Mr. CHISIK. There was an occasion, one occasion when Mr. Fox had sold a porch repair, remodeling job, for the amount of \$565 and received \$65 deposit. These people decided to cancel their contract.

I decided the contract was a legitimate contract and wouldn't return the deposit. So it was brought to the attention of the securities commission, and in order to avoid undue publicity, I returned the \$65.

The CHAIRMAN. What was the date of that?

Mr. CHISIK. I don't remember the date, sir.

Mr. SIMON. Didn't they—

The CHAIRMAN. The Michigan Securities Commission suspended your license, in what year?

Mr. SIMON. 1952.

The CHAIRMAN. That is correct.

Mr. CHISIK. May I say this?

The CHAIRMAN. Yes.

Mr. CHISIK. They had this particular case that we are referring to, and another case, where the job was sold by Mr. Howard, and they had given me a certain length of time to clarify these 2 particular deals, and in making contact I was 2 days late, according to the time they allowed me and it was as a result of that they suspended my license.

Mr. SIMON. How many different companies have you been connected with in the 14 years you were in the home improvement business?

Mr. CHISIK. Probably about four.

Mr. SIMON. Four?

What are the four? Advance is one.

Mr. CHISIK. Glendale Home Improvement.

Mr. SIMON. Universal Jalousies is another; isn't it?

Mr. CHISIK. No, sir.

Mr. SIMON. Universal Jalousies?

Mr. CHISIK. No, sir.

Mr. SIMON. Weren't you connected with that?

Mr. CHISIK. No.

Mr. SIMON. No connection at all?

Mr. CHISIK. No, sir.

Mr. SIMON. Did you ever hear of the company?

Mr. CHISIK. Yes, I did.

Mr. SIMON. Were you ever in their office?

Mr. CHISIK. Yes, I was.

Mr. SIMON. What were you doing there?

Mr. CHISIK. I was a salesman.

Mr. SIMON. Wouldn't you call that being connected with the company?

Mr. CHISIK. You asked me if I was a partner.

Mr. SIMON. No, I didn't.

Mr. CHISIK. I am sorry. I misunderstood you.

Mr. SIMON. I asked you how many companies in the home-improvement business you were connected with and I include salesmen or anything else in the 14 years you were in the business.

Mr. CHISIK. I was a salesman.

Mr. SIMON. How many were you connected with in any way in the 14 years?

Mr. CHISIK. About five.

Mr. SIMON. I have given you three: Advance, Glendale, Universal. What else?

Mr. CHISIK. State Home Improvement Co.

Mr. SIMON. State Home Improvement. All right.

Mr. CHISIK. Interstate Asphalt Co.

Mr. SIMON. Any others?

Mr. CHISIK. Grand Modernization.

Mr. SIMON. Any others?

Mr. CHISIK. That is all.

Mr. SIMON. From 1938 to 1952 are those the only five companies with which you had any business dealings whatever?

Mr. CHISIK. That I recall.

Mr. SIMON. How long were you with Grand Modernization?

Mr. CHISIK. About 3 or 4 months.

Mr. SIMON. In what year?

Mr. CHISIK. 1953.

Mr. SIMON. 1953. How long were you with Interstate Asphalt?

Mr. CHISIK. About 2 years.

Mr. SIMON. What 2 years?

Mr. CHISIK. Probably 1940, 1941.

Mr. SIMON. How long were you with State Home?

Mr. CHISIK. A couple of years.

Mr. SIMON. What years?

Mr. CHISIK. 1942, 1943.

Mr. SIMON. How long were you with Universal Jalousies?

Mr. CHISIK. Three months.

Mr. SIMON. What period?

Mr. CHISIK. 1953.

Mr. SIMON. How long were you with Glendale?

Mr. CHISIK. Two years.

Mr. SIMON. What time?

Mr. CHISIK. 1948-49, I believe.

Mr. SIMON. How long were you with Advance?

Mr. CHISIK. Two years.

Mr. SIMON. What period?

Mr. CHISIK. I don't recall the date, sir.

Mr. SIMON. I am sorry.

Mr. CHISIK. I don't recall the dates. It is on record, I believe.

Mr. SIMON. It was in the fifties, wasn't it?

Mr. CHISIK. Probably.

Mr. SIMON. You have given us 6 companies for which you worked a total of about 8 years out of the 14. Who did you work for the other 6 years?

Mr. CHISIK. Nobody else.

Mr. SIMON. Nobody else?

Mr. CHISIK. No.

Mr. SIMON. Were you unemployed all that time?

Mr. CHISIK. I might be mistaken whether it is 2 or 3 years. I don't remember.

Mr. SIMON. You still are 6 years short. For example, you have given us nobody between 1943 and 1948. What did you do in that 5-year period?

Mr. CHISIK. I probably was associated with one or the other companies. I don't remember the dates. I didn't do anything else.

Mr. SIMON. I am not trying to pin you down to a week or month, but there is a 5-year period.

Mr. CHISIK. During that total length of time those were the companies I was associated with.

Mr. SIMON. What were you doing the 5 or 6 years that are missing here?

Mr. CHISIK. There isn't any years missing. I just don't remember the dates.

Mr. SIMON. What were you doing between 1943 and 1948?

Mr. CHISIK. I was in the same line of business.

Mr. SIMON. Who were you working with?

Mr. CHISIK. I am sorry, sir. I don't remember the dates. It had to be one of these places.

Mr. SIMON. Do you know who you were working for or working with?

Mr. CHISIK. No.

Mr. SIMON. You cannot remember that whole 5-year period?

Mr. CHISIK. It had to be one of those companies.

The CHAIRMAN. You were not in business for yourself during that period, were you?

Mr. CHISIK. No, sir. If I was, it would be on record.

The CHAIRMAN. What have you been doing the last year and a half?

Mr. CHISIK. I am selling jalousies.

The CHAIRMAN. What?

Mr. CHISIK. Jalousie windows.

Mr. SIMON. That is with the Universal Jalousies?

Mr. CHISIK. No, sir.

Mr. SIMON. Who are you with now?

Mr. CHISIK. Michigan Jalousies.

Mr. SIMON. When you were with Universal Jalousies did you do any work with Mrs. Ruth Stokes?

Mr. CHISIK. No; I did not.

Mr. SIMON. Do you know her?

Mr. CHISIK. Yes.

Mr. SIMON. Have you ever had any business dealings with her?

Mr. CHISIK. No, sir.

Mr. SIMON. Did you—do you know Irving Swaab?

Mr. CHISIK. I knew him.

Mr. SIMON. What was his position in Universal Jalousies?

Mr. CHISIK. He was the owner.

Mr. SIMON. You worked for him?

Mr. CHISIK. Yes.

Mr. SIMON. Did he have any business dealings with Mrs. Stokes that you know about?

Mr. CHISIK. I believe so.

Mr. SIMON. Have you ever had a conversation with Mrs. Stokes?

Mr. CHISIK. Yes.

Mr. SIMON. Did you ever talk to her?

Mr. CHISIK. Yes.

Mr. SIMON. When is the last time you talked to her?

Mr. CHISIK. Last year, in 1953.

Mr. SIMON. What part of the year?

Mr. CHISIK. In the summer.

Mr. SIMON. In the summer. Where was this conversation?

Mr. CHISIK. In the office of the Universal Jalousies.

Mr. SIMON. What was the subject of the conversation?

Mr. CHISIK. I don't remember.

Mr. SIMON. Did it have anything to do with a loan?

Mr. CHISIK. No, sir.

Mr. SIMON. Have you talked to her since the summer of 1953 at any time?

Mr. CHISIK. No, sir.

Mr. SIMON. You are absolutely certain of that?

Mr. CHISIK. Yes, sir.

Mr. SIMON. She has testified here this morning that she had been advised that the FBI was coming out to see her. Is that false?

Mr. CHISIK. I don't know whether it is false or not. I didn't have any conversation with her.

The CHAIRMAN. If you did not have any conversation it would be false, wouldn't it?

Mr. CHISIK. I don't know.

Mr. SIMON. She says she talked to you?

Mr. CHISIK. I didn't talk to her.

Mr. SIMON. Did she talk to you?

Mr. CHISIK. I haven't seen her.

Mr. SIMON. Since when?

Mr. CHISIK. I think I just told you that I didn't see her since 1953, last summer.

Mr. SIMON. We want to make very clear that there is no confusion in this record because one of you is not telling the truth.

Mr. CHISIK. I just declared myself.

Mr. SIMON. You say unequivocally you have not seen the woman since the summer of 1953?

Mr. CHISIK. That is right.

Mr. SIMON. And what do you define as the summer?

Mr. CHISIK. I think the summer is between spring and fall.

Mr. SIMON. I want to make sure there is—would you say summer is over by September?

Mr. CHISIK. I don't know. I don't keep track of the weather reports.

Mr. SIMON. You don't?

Mr. CHISIK. And things of that kind. Summer is when it is warm and hot.

Mr. SIMON. When is the last time you saw Mrs. Stokes?

Mr. CHISIK. I think I have just told you that the last time I saw her was in the summer of 1953.

Mr. SIMON. Can you fix that with respect to the month?

Mr. CHISIK. July.

Mr. SIMON. July of 1953?

Mr. CHISIK. Yes.

Mr. SIMON. You have not seen her since then?

Mr. CHISIK. No, sir.

Mr. SIMON. You are certain of that?

Mr. CHISIK. Yes.

Mr. SIMON. In that July 1953 meeting did you discuss with her a title I loan she had just made?

Mr. CHISIK. No, sir.

Mr. SIMON. Do you know a woman named Mildred Redmond?

Mr. CHISIK. No, sir.

Mr. SIMON. Have you ever seen her in your life?

Mr. CHISIK. No, sir.

Mr. SIMON. Do you know anything at all about a loan that Mrs. Mildred Redmond made?

Mr. CHISIK. No, sir.

Mr. SIMON. Did you get any part of the proceeds of that loan?

Mr. CHISIK. No, sir.

Mr. SIMON. Not a nickel's worth?

Mr. CHISIK. No, sir.

Mr. SIMON. Do you know a Mrs. Reuben Davidson?

Mr. CHISIK. No, sir.

Mr. SIMON. Do you know anything at all about a loan that she made in 1953 under title I?

Mr. CHISIK. No, sir.

Mr. SIMON. Did you get any part of the proceeds of that loan?

Mr. CHISIK. No, sir.

Mr. SIMON. Did Mrs. Davidson pay you anything for making that loan or for services in connection with the loan?

Mr. CHISIK. I don't understand you.

The CHAIRMAN. Repeat the question.

Mr. SIMON. Did any money come into your possession from Mrs. Davidson or from the proceeds of that loan for services that you performed or anything you did in connection with the loan?

Mr. CHISIK. I performed no services. I received no money.

Mr. SIMON. You received nothing?

Mr. CHISIK. Nothing.

Mr. SIMON. Either from Mrs. Davidson or from the proceeds of her loan?

Mr. CHISIK. That is right.

Mr. SIMON. And did you receive anything from Mrs. Redmond or her husband in connection with their loan?

Mr. CHISIK. I don't know anything about her loan. I received no money.

Mr. SIMON. Neither from her nor her husband?

Mr. CHISIK. That is right.

Mr. SIMON. Or from Mrs. Stokes?

Mr. CHISIK. That is right.

Mr. SIMON. Or Mr. Swaab?

Mr. CHISIK. You asked me if I received any money from Mr. Swaab?

Mr. SIMON. In connection with the Redmond loan or in connection with the Davidson loan.

Mr. FORDELL. Excuse me just a moment.

The CHAIRMAN. You may consult with your client.

(Conference between Mr. Chisik and Mr. Fordell.)

Mr. SIMON. Do you recall the pending question?

Mr. CHISIK. Yes. You asked me if I got any money from Mr. Swaab in reference to any of these questions that you have asked me and I say "No."

Mr. SIMON. Do you know a man named Lawyer Brown?

Mr. CHISIK. No, sir.

Mr. SIMON. Have you ever met him?

Mr. CHISIK. No, sir.

Mr. SIMON. A Mrs. Stokes—I am sorry, I withdraw that.

Did you ever arrange a title I loan for Mrs. Stokes?

Mr. CHISIK. No, sir.

Mr. SIMON. Did you know a man named Shepherd, who worked for the Industrial National Bank? William Shepherd?

Mr. CHISIK. Yes, sir.

Mr. SIMON. Did you pay him any money?

Mr. CHISIK. No, sir.

Mr. SIMON. Never paid him a dime?

Mr. CHISIK. No, sir.

Mr. SIMON. He has testified here that in the year 1953, you paid him \$1.650 in connection with title I loans. Is that false?

Mr. CHISIK. Yes.

Mr. SIMON. Did you pay him anything in connection with title I loans?

Mr. CHISIK. No, sir.

Mr. SIMON. Did you ever pay any money at all to Mr. Shepherd?

at  
Mr. CHISIK. I have never paid any money to anybody.  
Mr. SIMON. Don't you even pay your bills?  
Mr. CHISIK. Lately I am not.  
Mr. SIMON. I see, but specifically with respect to Mr. Shepherd have  
you ever paid him a dime?  
Mr. CHISIK. No, sir.  
Mr. SIMON. Never paid him anything?  
Mr. CHISIK. No, sir.  
Mr. SIMON. You understand you are under oath?  
Mr. CHISIK. Yes, sir.  
Mr. SIMON. Mr. Shepherd testified you did. Do you know any rea-  
son why he should say you paid him money if you hadn't.  
(Conference between Mr. Chisik and Mr. Fordell.)  
Mr. CHISIK. No, sir. I wouldn't know any reason why he would  
have to make that statement.  
Mr. SIMON. Do you know a lady named Doris Thomas?  
Mr. CHISIK. No, sir.  
Mr. SIMON. You never met her?  
Mr. CHISIK. No.  
Mr. SIMON. Did you ever hear the name before?  
Mr. CHISIK. I don't believe so.  
Mr. SIMON. Do you know whether you have ever heard the name  
before?  
Mr. CHISIK. I don't recall it.  
Mr. SIMON. Have you ever met her?  
Mr. CHISIK. No, sir.  
Mr. SIMON. Are you certain you have never met Doris Thomas?  
Mr. CHISIK. I don't have the least idea who she is.  
Mr. SIMON. I can help you with that. She is the sister of Ruth  
Stokes. Does that help refresh your memory?  
Mr. CHISIK. I have seen her.  
Mr. SIMON. You have seen her?  
Mr. CHISIK. Yes.  
Mr. SIMON. Did you ever have any business dealings with her?  
Mr. CHISIK. No, sir.  
Mr. SIMON. Did you ever pay her any money?  
Mr. CHISIK. No, sir.  
Mr. SIMON. None whatever?  
Mr. CHISIK. No, sir.  
Mr. SIMON. Do you know a lady named Cedar Point Thompson?  
Mr. CHISIK. Yes, sir.  
Mr. SIMON. Did you ever go to her house?  
Mr. CHISIK. Yes.  
Mr. SIMON. When was that?  
Mr. CHISIK. 1953.  
Mr. SIMON. June 1953?  
Mr. CHISIK. It is possible.  
Mr. SIMON. What was the purpose of your going to Mrs. Thomp-  
son's house?  
Mr. CHISIK. I went to arrange repair loan for the owner of the  
Universal Jalousie Co.  
Mr. SIMON. A repair loan by whom?  
Mr. CHISIK. By Universal Jalousie.  
Mr. SIMON. Who was going to make the loan?

The CHAIRMAN. Who was the homeowner?

Mr. CHISIK. I don't know. I just went to confer with her about the work she wanted.

The CHAIRMAN. Was she to make the loan?

Mr. SIMON. I don't know, sir. I just went up to find out what work was required. I was representing myself as a salesman.

Mr. SIMON. Whom did you talk to?

Mr. CHISIK. I talked to Mrs. Thompson.

Mr. SIMON. What did she tell you?

Mr. CHISIK. That she had to repair her home.

Mr. SIMON. She had to repair her home?

Mr. CHISIK. She had something or other about the home. I told her she couldn't handle it and she would have to come in and see the owner of the company. He took care of those type of transactions himself.

Mr. SIMON. What type of transaction was this?

Mr. CHISIK. A loan.

Mr. SIMON. What type of transaction did you handle?

Mr. CHISIK. I didn't go into details more than that, sir.

Mr. SIMON. What type of transactions did you handle?

Mr. CHISIK. I handled transactions of the type where a job was installed and completed.

Mr. SIMON. What type was this?

Mr. CHISIK. I don't know.

Mr. SIMON. How do you know this was not the type you handled?

Mr. CHISIK. I understand there was some misunderstanding about ownership, or not enough equity. I thought it might not be eligible or something to that effect so I just dropped it.

Mr. SIMON. Did you ever get any part of the proceeds of that loan?

Mr. CHISIK. No.

Mr. SIMON. Did either Mrs. Thompson or Mrs. Stokes ever give you any part of the proceeds of that loan?

Mr. CHISIK. No, sir.

Mr. SIMON. Did Mr. Swaab ever give you any part of the proceeds of that loan?

Mr. CHISIK. No, sir.

Mr. SIMON. You are certain of that?

Mr. CHISIK. Yes, sir.

Mr. SIMON. I would like to ask you another question about Mildred Redmond. Do you remember her?

Mr. CHISIK. No, sir.

Mr. SIMON. You have never seen her?

Mr. CHISIK. No, sir.

Mr. SIMON. In April, May, or June of 1953 did either Mrs. Stokes or Mrs. Redmond, either one of them, come to the offices of the Universal Jalousies Co. with a check for \$1,200 of the Industrial National Bank, when you were there?

When you were in the Universal Jalousies' offices?

Mr. CHISIK. Is that the question?

Mr. SIMON. Yes.

Mr. CHISIK. I don't remember.

Mr. SIMON. Do you recall whether they ever came to the office while you were there in April, May, or June with a \$1,200 check?

Mr. CHISIK. No.

I do not recall.

Mr. SIMON. Are you prepared to say they did not come there with that check?

Mr. CHISIK. I say I do not recall.

Mr. SIMON. You are not prepared to say they did not come with the check?

(Conference between Mr. Chisik and Mr. Fordell.)

Mr. CHISIK. I just don't recall.

Mr. SIMON. Did either one of them during April, May, or June 1953 come to the office of the Universal Jalousies with an Industrial National Bank check for \$1,200 which was cashed by someone in the office while you were there?

Mr. CHISIK. I don't recall.

Mr. SIMON. You are not saying it did not happen, but merely that you do not recall it; is that right?

Mr. CHISIK. That is right.

Mr. SIMON. Did either Mrs. Redmond or Mrs. Stokes receive a thousand dollars of such \$1,200 check and was \$200 kept by somebody in the office?

What was your answer to the last question?

Mr. CHISIK. Will you repeat the last question?

(Question read.)

Mr. CHISIK. I don't recall.

Mr. SIMON. You don't recall?

Mr. CHISIK. No, sir.

Mr. SIMON. Do you know whether Mr. Stokes' father ever made a title I loan for \$1,500?

Mr. CHISIK. I wouldn't know.

The CHAIRMAN. Let me ask you this question and maybe we can get around it. This is what Mrs. Stokes testified to under oath. I am going to find out what your answer is to it:

Mrs. STOKES. Yes. They seemed to work together, but he seemed to be the big wheel.

That is referring to you.

Was he a partner of Jack Chisik?

Mr. Sells, that is the lawyer in Washington—

So you and your daddy went out to the company, the Universal Jalousies, and Jack drove you and your daddy to the bank.

Is that right?

The CHAIRMAN. The Jack here is you.

Mrs. STOKES. Yes, Mr. Sells.

And your daddy picked up the \$1,500?

Mrs. STOKES. Yes.

Mr. SELLS. Did you get the \$1,500?

Mrs. STOKES. Yes.

Mr. SELL. How much of it did Mr. Chisik ask for?

Mrs. STOKES. I don't remember now. I think it was \$350.

Did you give it to him?

Mrs. STOKES. Yes.

Is that testimony correct?

Mr. CHISIK. Well, sir, I believe, to the best of my knowledge, that that testimony is correct, and I might add that I was acting for a

man who was incapacitated and couldn't move around very well himself.

The CHAIRMAN. Who was the man?

Mr. CHISIK. Mr. Swaab.

The CHAIRMAN. Mr. Swaab?

Mr. CHISIK. Yes.

The CHAIRMAN. Is that the same Mr. Swaab that testified here yesterday?

Mr. CHISIK. No, sir. That was his father.

The CHAIRMAN. So this testimony is correct, excepting you took the \$350 for Mr. Swaab?

Mr. CHISIK. That is right.

The CHAIRMAN. Then you do know Mrs. Stokes, do you not?

Mr. CHISIK. I said I did.

Mr. SIMON. How was that \$350 handled in the books of the company?

Mr. CHISIK. I wouldn't know, sir.

Mr. SIMON. Did you get any part of it?

Mr. CHISIK. No, sir.

Mr. SIMON. What did you do with the \$350?

Mr. CHISIK. I gave it to Mr. Swaab.

Mr. SIMON. In cash?

Mr. CHISIK. Yes, sir.

Mr. SIMON. You got no part of it?

Mr. CHISIK. Yes, sir.

Mr. SIMON. You did get a part of it?

Mr. CHISIK. No, sir, I meant.

Mr. SIMON. You got no part of that money?

Mr. CHISIK. That is right.

Mr. SIMON. You don't know what he did with it?

Mr. CHISIK. No, sir, I don't.

Mr. SIMON. You were just a salesman there, you say?

Mr. CHISIK. Well, sir, Mr. Swaab had a bad heart, and I performed a lot of services for him.

Mr. SIMON. And everything you did—everything that might have been done that was wrong was done for him; is that right?

Mr. CHISIK. No. We had a lot of contracts we fulfilled.

Mr. SIMON. What was your function in the office?

Mr. CHISIK. I contracted jobs for him.

Mr. SIMON. You mean you contracted jobs, subcontracted?

Mr. CHISIK. I performed the work.

Mr. SIMON. How much did he pay you?

Mr. CHISIK. It depends on the job.

Mr. SIMON. Were you on a commission basis or salary basis?

Mr. CHISIK. No, sir.

Mr. SIMON. What was the basis?

Mr. CHISIK. We had no definite agreement.

Mr. SIMON. You mean you made a separate deal on each job?

Mr. CHISIK. That is right.

Mr. SIMON. In advance?

Mr. CHISIK. That is right.

Mr. SIMON. Do you keep any records?

Mr. CHISIK. Some.

Mr. SIMON. Were you the salesman on these jobs?

Mr. CHISIK. What jobs?

Mr. SIMON. The jobs that you are talking about with Swaab.

Mr. CHISIK. Occasionally I was a salesman. Occasionally it was a job that had been sold by somebody else that I handled.

Mr. SIMON. When you handled a job sold by somebody else, what did you do?

Mr. CHISIK. I arranged labor and material in order to complete the job.

Mr. SIMON. What would you be paid for that?

Mr. CHISIK. It depends on the amount of the job, amount of work involved.

Mr. SIMON. Was it a percentage?

Mr. CHISIK. Sometimes.

Mr. SIMON. What was the percentage?

Mr. CHISIK. We had no definite agreement on any particular deal. It might have been 25 percent, it might have been 30 percent, it might have been 40 percent.

Mr. SIMON. When you sold the job, how much did you get, when you were the salesman on the job?

Mr. CHISIK. It also depends upon the type of job it was. No definite agreement.

The CHAIRMAN. Didn't you work on a par basis?

Mr. CHISIK. No, sir.

The CHAIRMAN. You got everything over a certain amount?

Mr. CHISIK. No, sir.

Mr. SIMON. Did you work on this basis: He got 10 percent off the top and you got everything else between 10 percent and cost?

Mr. CHISIK. No, sir. We didn't handle siding. We handled all construction.

Mr. SIMON. Did you file an income-tax return for last year?

Mr. CHISIK. Yes, sir.

Mr. SIMON. Do you have the records in which you computed the taxable income that you had?

Mr. CHISIK. My auditor has. My bookkeeper has.

Mr. SIMON. Who is your auditor?

Mr. CHISIK. Mr. Warnick.

Mr. SIMON. What is his full name?

Mr. CHISIK. Sidney.

Mr. SIMON. How do you spell that?

Mr. CHISIK. W-a-r-n-i-c-k.

Mr. SIMON. Where is his office?

Mr. CHISIK. 1804-15 Kentucky.

Mr. SIMON. He has all of your records?

Mr. CHISIK. Yes, sir.

Mr. SIMON. Do you have any records that he doesn't have?

Mr. CHISIK. I don't believe so.

Mr. SIMON. You don't know, though, is that right?

Mr. CHISIK. I don't know, no.

Mr. SIMON. One thing I want to make very clear in this record, so there will be no dispute about it at a later date: You are absolutely certain you never paid a dime to William R. Shepherd?

Mr. CHISIK. No, sir.

Mr. SIMON. You are absolutely certain you didn't pay him?

Mr. CHISIK. I am sure I didn't.

Mr. SIMON. You are sure you did not pay him?

Mr. CHISIK. I am sure I didn't, yes, sir. I am sure I did not pay him.

The CHAIRMAN. Did a company for which you were working pay him?

Mr. CHISIK. No, sir. No, sir.

Mr. SIMON. Regardless of whose money it was, did you ever transmit money to him?

Mr. CHISIK. No, sir.

The CHAIRMAN. You never even handled the money?

Mr. CHISIK. No, sir.

Mr. CHAIRMAN. Then Mr. Shepherd deliberately lied and perjured himself here?

Mr. CHISIK. As far as I am concerned, he did.

Mr. SIMON. Do you know a man named Wallace Helies?

Mr. CHISIK. Yes. I met him once.

Mr. SIMON. Just once?

Mr. CHISIK. That is right.

Mr. SIMON. When was that?

Mr. CHISIK. The summer of 1953.

Mr. SIMON. Can you fix the month again?

Mr. CHISIK. July.

Mr. SIMON. What was the occasion of your meeting with him?

Mr. CHISIK. Casual meeting. That is all.

Mr. SIMON. Where?

Mr. CHISIK. In the offices of the Universal Jalousies.

Mr. SIMON. What was he doing there?

Mr. CHISIK. He came to see Mr. Swaab.

Mr. SIMON. About what?

Mr. CHISIK. I wouldn't know.

Mr. SIMON. You had never seen him before?

Mr. CHISIK. No, sir.

Mr. SIMON. Never seen him since?

Mr. CHISIK. (No response.)

The CHAIRMAN. I want to get back to this Shepherd. Answer that question first.

Mr. CHISIK. I don't recall seeing him.

The CHAIRMAN. Have you ever seen him since?

Mr. CHISIK. I don't recall seeing him, unless it was casual someplace.

Mr. SIMON. You are not prepared to say you didn't see him?

Mr. CHISIK. I don't—

Mr. SIMON. My question was whether you had casually seen him.

Mr. CHISIK. I might have seen him driving by and said "Hello."

Mr. SIMON. You never had any business dealings with him?

Mr. CHISIK. No, sir.

Mr. SIMON. None whatever?

Mr. CHISIK. No, sir.

The CHAIRMAN. Do you think Mr. Shepherd would embarrass himself to publicly state that you gave him \$1,650?

Mr. CHISIK. Maybe he is covering for somebody else. I don't know.

Mr. SIMON. Let me ask you one more question about Doris Thomas. Do you recall her now?

Mr. CHISIK. I don't remember her face. I remember the name.

Mr. SIMON. Did you ever have a discussion with her about a loan?

Mr. CHISIK. No, sir.

Mr. SIMON. You never talked to her about a loan?

Mr. CHISIK. I don't recall anything.

Mr. SIMON. That wasn't my question.

Mr. CHISIK. I don't recall talking to her.

Mr. SIMON. Are you prepared to say under oath you never had a discussion with Doris Thompson about a loan?

Mr. CHISIK. I don't recall it.

Mr. SIMON. You don't recall it?

Mr. CHISIK. No, sir.

Mr. SIMON. You are not willing to deny that you ever had a dealing with her on a loan?

Mr. CHISIK. I don't recall it.

Mr. SIMON. If you saw her would that refresh your recollection?

Mr. CHISIK. Probably not.

Mr. SIMON. You just can't recall any of these things; is that right?

Mr. CHISIK. It depends what the things are.

Mr. SIMON. Did you handle a loan for her which was turned down and then finally get her another loan?

Mr. CHISIK. I don't recall it.

Mr. SIMON. You don't recall it?

Mr. CHISIK. No, sir.

Mr. SIMON. It happened just last year.

Mr. CHISIK. It is very possible. There is a lot of things I don't recall.

Mr. SIMON. But your memory isn't that good?

Mr. CHISIK. I am getting old.

Mr. SIMON. Thank you.

The CHAIRMAN. I just want to say this for the record, because we will be forced to refer to the district attorney here the testimony of this gentleman, as well as others, because of the fact that they are contradicting each other.

In other words, somebody is lying, and we will be forced to turn it all over to the district attorney here for the proper treatment.

Mr. FORDELL. Are you through with Mr. Chisik?

The CHAIRMAN. I think so. You might remain around, if you will, until a little later.

Is Mr. Bard here?

Mr. BARD. Yes, sir.

The CHAIRMAN. Will you take the witness stand, Mr. Bard?

Mr. Bard, will you be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BARD. I do.

#### TESTIMONY OF JOHN BARD, ACCOUNTANT, BANKING AND CURRENCY COMMITTEE—Resumed

The CHAIRMAN. Give your full name and address to the reporter.

Mr. BARD. John Bard, 1311 South Thomas Street, Arlington, Va.

The CHAIRMAN. And you are employed by the General Accounting Office in Washington?

Mr. BARD. I am an employee of the General Accounting Office in Washington.

The CHAIRMAN. You were assigned by them to this committee to assist us?

Mr. BARD. That is right.

The CHAIRMAN. We asked yesterday for the statement of the Cozy Homes Corp. They brought their books down and gave them to you. We want you now to tell us what their sales amounted to; how much the subcontractors received, because they are a company in which they just had an office and 1 or 2 employees and how much their sales was, how much they paid subcontractors and how much they paid salesmen.

Mr. BARD. Yes, sir. The books indicated that during the year 1950, there was less than \$10,000 in sales and distributions, so I ignored that.

The CHAIRMAN. What about the next year?

Mr. BARD. The year of 1951, the gross sales were \$181,524.63.

The CHAIRMAN. Out of that, how much did the salesmen receive?

Mr. BARD. Sir, may I combine that with the 2 months of 1952?

The CHAIRMAN. All right.

Mr. BARD. In which the sales amounted to \$24,008.62. That was a total of \$205,532.

The CHAIRMAN. Out of the sales, how much did the salesmen receive?

Mr. BARD. The salesmen received \$101,017, or approximately, very close, to between 49 and 50 percent of the gross sales.

The CHAIRMAN. And the subcontractors received how much?

Mr. BARD. The subcontractors received a net amount of \$84,204, or 40 percent.

The CHAIRMAN. And the so-called Cozy Home?

Mr. BARD. Received \$20,553.

The CHAIRMAN. For simply being the brokers?

Mr. BARD. That is right.

The CHAIRMAN. In other words, the normal salesman's commission would be about 10 to 15 percent on this sort of thing?

Mr. BARD. I would think so.

The CHAIRMAN. It simply means the homeowners were fleeced out of something like, by this one firm, something like \$80,000 as a result of this selling on the par basis?

Mr. BARD. That is right; about \$85,000.

The CHAIRMAN. Giving a salesman a price and saying, "Everything over that price you secure you may keep."

Mr. BARD. That is right.

The CHAIRMAN. In this instance a salesman on approximately \$200,000 worth of sales—

Mr. BARD. \$101,000.

The CHAIRMAN. They collected \$101,000?

Mr. BARD. That is right.

The CHAIRMAN. Which was 100 percent.

Mr. BARD. Fifty percent of the gross profit but 100 percent on the sales.

The CHAIRMAN. That, of course, is the general pattern we are finding all over the United States on the part of many, many dealers, and in this instance the homeowners were beat out of possibly \$80,000, and we don't know how much—we don't know whether the product

was worth what they did pay for it. It shows the pattern that has been going on for many years in title I.

Mr. BARD. Yes, sir.

The CHAIRMAN. Thank you very much.

Mr. Kaufman, will you please come forward?

**TESTIMONY OF JEROME J. KAUFMAN, ALSIDE ALUMINUM CO.,  
AKRON, OHIO, ACCOMPANIED BY ROBERT H. WINN, COUNSEL**

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KAUFMAN. I do.

The CHAIRMAN. Please be seated and give your full name and address to the reporter.

Mr. KAUFMAN. Jerome J. Kaufman, 160 Hampshire Road, Akron, Ohio.

Mr. SIMON. And you are—what is your business?

Mr. KAUFMAN. We are a manufacturer of aluminum products.

Mr. SIMON. Called what?

Mr. KAUFMAN. Alside, A-l-s-i-d-e.

Mr. SIMON. That is a siding for homes?

Mr. KAUFMAN. Yes, sir.

The CHAIRMAN. The gentleman with you is your attorney? Will you give your name, please?

Mr. WINN. Robert H. Winn, Washington, D. C.

The CHAIRMAN. We only have a few questions for you today because I am pretty certain we will want to question you later, because your distributor, I understand, Mr. Eisen, was in Chicago when we were there, and was unable to testify because of illness.

Mr. KAUFMAN. Senator, he is not our distributor.

The CHAIRMAN. I want to ask you a few questions about that. Do you know a Mr. Eisen, in Chicago?

Mr. KAUFMAN. Yes, sir; I do.

The CHAIRMAN. What connection does he have with your company?

Mr. KAUFMAN. He is a broker.

The CHAIRMAN. What do you mean by a broker?

Mr. KAUFMAN. He contacts existing companies who are in the construction business and sells them our material.

Mr. CHAIRMAN. Does he have the exclusive brokerage rights from Chicago to the Pacific coast?

Mr. KAUFMAN. Yes.

The CHAIRMAN. He is the exclusive—

Mr. KAUFMAN. Except for what we may sell directly ourselves.

The CHAIRMAN. Then he does not have exclusive rights, then?

Mr. KAUFMAN. Technically, no.

The CHAIRMAN. You are certain he does not have exclusive rights?

Mr. KAUFMAN. I have no other man in there other than myself.

The CHAIRMAN. Mr. Eisen, in Chicago, sells the dealers?

Mr. KAUFMAN. That is right.

The CHAIRMAN. Established dealers, and sells the dealers?

Mr. KAUFMAN. That is right, sir.

The CHAIRMAN. This Mr. Eisen, E-i-s-e-n, after he has established a dealer and sold him a carload or 3 or 4 carloads, or whatever the

quantity is, of siding, doesn't he have crews of salesmen move in to sell that siding for those dealers?

Mr. KAUFMAN. No, sir.

The CHAIRMAN. He never has had?

Mr. KAUFMAN. Not to my knowledge, sir.

The CHAIRMAN. Are you certain?

Mr. KAUFMAN. As certain as I can be.

The CHAIRMAN. Did you ever hear of the Cane, C-a-n-e, Enterprises, which was owned by Harry Cane?

Mr. KAUFMAN. Yes, sir; I did.

The CHAIRMAN. Did he not sell for Mr. Eisen, your broker, as you call him?

Mr. KAUFMAN. No, sir; he did not.

The CHAIRMAN. You are certain of that?

Mr. KAUFMAN. I am certain, sir.

The CHAIRMAN. Who was Eisen selling for?

Mr. KAUFMAN. Eisen did not sell for anyone but ourselves.

The CHAIRMAN. Eisen sold for you?

Mr. KAUFMAN. That is right, sir.

The CHAIRMAN. How would you compensate him?

Mr. KAUFMAN. By a certain percentage.

The CHAIRMAN. You gave him a percentage. Was it the par basis we have been discussing this morning?

Mr. KAUFMAN. No, sir; we are manufacturing. We are not in retail siding.

The CHAIRMAN. You are manufacturers of siding?

Mr. KAUFMAN. There is no par in the manufacturing, sir.

The CHAIRMAN. But your dealers used the par system?

Mr. KAUFMAN. That is up to their own discretion how to run their business.

The CHAIRMAN. You don't know whether they do or do not?

Mr. KAUFMAN. No. The only thing we hope is they cooperate with us.

The CHAIRMAN. Are you prepared to say they do?

Mr. KAUFMAN. I don't know whether they do or don't, sir.

The CHAIRMAN. Do you pay Eisen?

Mr. KAUFMAN. Yes, sir; we do.

The CHAIRMAN. But you pay him on a commission basis?

Mr. KAUFMAN. It is a certain set fee per unit.

The CHAIRMAN. Does he pay all of his own expenses?

Mr. KAUFMAN. Yes.

The CHAIRMAN. How much fee do you pay him per square foot, or whatever unit you sell?

Mr. KAUFMAN. Just one moment.

(Discussion between Mr. Kaufman and Mr. Winn.)

Mr. KAUFMAN. It is \$70 per 100 square feet.

The CHAIRMAN. You pay Eisen \$70 a hundred square feet?

Mr. KAUFMAN. That is right.

The CHAIRMAN. For all the siding he sells?

Mr. KAUFMAN. That is right.

The CHAIRMAN. He sells it to the dealers at a stipulated price?

Mr. KAUFMAN. Dealers and distributors; yes, sir.

The CHAIRMAN. You collect from the dealers and distributors?

Mr. KAUFMAN. Yes, sir.

The CHAIRMAN. Do you know whether or not Eisen does employ crews of salesmen to go in, then, and sell for these dealers and distributors?

Mr. KAUFMAN. Would you please rephrase that?

The CHAIRMAN. I said, do you know whether Eisen does employ crews of salesmen to go in and sell for the dealers and distributors after he establishes them?

Mr. KAUFMAN. I said, sir, he does not.

The CHAIRMAN. He does not?

Mr. KAUFMAN. That is correct.

The CHAIRMAN. You do not give your dealers and distributors any sales help whatsoever?

Mr. KAUFMAN. No, sir; not in the vein that you are speaking of.

The CHAIRMAN. What?

Mr. KAUFMAN. Not in the vein you are speaking of.

The CHAIRMAN. How do you handle it?

Mr. KAUFMAN. We have sample boards which display the products we have, we have literature which explains the products, we have story books which show various homes that have been applied, which is more as a sales aid, or the paraphernalia used in demonstration of this material.

The CHAIRMAN. Are you prepared to say that Mr. Eisen, or your company, after you sell a distributor or dealer a carload or 2 or 3 carloads, did not get in touch with Cane Enterprises and say, "I just sold X amount to X company in Evansville or Houston, or some other point, and you ought to get in touch with them and make your own deal"?

Mr. KAUFMAN. That I cannot say.

The CHAIRMAN. Are you prepared to say that Mr. Eisen does not handle it on that basis?

Mr. KAUFMAN. Sir, all I can say is our instructions are, Mr. Eisen is our broker and he is not to send any salesmen or have anything to do with any salesmen or dealers. We are a manufacturer, not in retail selling.

The CHAIRMAN. We have had numerous complaints, of course, about the siding business, as you know, in respect to FHA title I.

Mr. KAUFMAN. There happens to be about 200 various manufacturers, including large outlets like Celotex, Johns-Mansville, and so forth, and I am sure all the testimony I heard here did not pertain to any of the materials we manufactured.

The CHAIRMAN. I don't think that is true of the testimony here, but I can show you testimony in other places where it did apply to your siding.

Mr. KAUFMAN. Yes, sir. That is possible. I believe \$8 billion worth of title I has been sold to 17½ million homeowners.

The CHAIRMAN. Are you familiar with the testimony of Mr. Cane in Chicago?

Mr. KAUFMAN. Yes, sir; I am.

The CHAIRMAN. Any questions?

Mr. SIMON. Are you prepared to say his testimony isn't true?

Mr. KAUFMAN. Sir, I don't think it is for me to judge a man's testimony as to whether it is true or false. I am only expressing what I know.

Mr. SIMON. You recall he testified that when Eisen sold a job, Eisen would tell the dealer, "I will get you a crew of salesmen who will come in and sell this siding for you before your bill is due," and Harry Cane would move in with his salesmen and move the product.

Mr. KAUFMAN. I don't have the record, but I think if you look at it you will find that isn't what he said.

Mr. SIMON. That is what Cane testified.

Mr. KAUFMAN. That was in secret session possibly. I wouldn't have that record.

Mr. SIMON. Cane did so testify. Do you know whether that is true?

Mr. KAUFMAN. I would say it is not true, sir.

Mr. SIMON. Do you know it is not true?

Mr. KAUFMAN. To the best of my belief, it is not true.

Mr. SIMON. To the best of your belief?

Mr. KAUFMAN. That is correct. I trust the man who is my broker, and I can't verify what a man may say or do. All I can say is what I believe. I can vouch for what I do.

The CHAIRMAN. The testimony we received in Chicago was to the effect that Harry Cane, as you know, has a very long criminal record.

Mr. KAUFMAN. Sir, I don't know that.

The CHAIRMAN. He is the brother of Mickey Cohen. He has a very long criminal record and his testimony was that he would get these men together, they would go out and Mr. Eisen would sell a deal and he would move in with these gentlemen and sell the goods direct to the homeowners. In fact, the whole crew were arrested in Houston, Tex.

Mr. KAUFMAN. Did he state whether he sold any other manufacturers' material?

The CHAIRMAN. Yes; I think he did from time to time.

Mr. KAUFMAN. He did. Did he state when he went to Texas he went there to sell our material?

The CHAIRMAN. I don't know whether he did or not.

Mr. KAUFMAN. Thank you.

The CHAIRMAN. The fact remains that, if you want to get technical and start asking questions—

Mr. KAUFMAN. No; I just was wondering about his testimony.

The CHAIRMAN. That I shall tell a little more, and that is that we have had a lot of complaint about your siding, we have had a lot of complaint that hoodlums were out selling your goods and you knew about it.

Mr. KAUFMAN. Senator, is it our siding or is it about the individuals?

The CHAIRMAN. It is about yourself and your company.

Mr. KAUFMAN. You mean our company is selling this?

Mr. SIMON. Do you have a customer in Houston named Atlas Co.?

Mr. KAUFMAN. No.

Mr. SIMON. Did you ever sell to the Atlas Co.?

Mr. KAUFMAN. Yes.

The CHAIRMAN. It must have been a customer, wasn't it?

Mr. KAUFMAN. In 1948 and 1949.

The CHAIRMAN. The question was did you have a customer by the name of Atlas, and you said "No."

Mr. KAUFMAN. No; the question was "Do I have," sir.

Mr. SIMON. You had a customer named Atlas in 1948 and 1949?

Mr. KAUFMAN. That is right, sir.

Mr. SIMON. And the case the Senator spoke of, where Cane's people were arrested in Houston, they were down moving siding for the Atlas Co.

Mr. KAUFMAN. In what year, sir? In 1950 and 1951, not when we sold them.

Mr. SIMON. 1950.

Mr. KAUFMAN. 1950.

Mr. SIMON. When did you stop selling them?

Mr. KAUFMAN. In 1949.

Mr. SIMON. What time of the year?

Mr. KAUFMAN. That I don't recall, sir, but he did not have any material when those men were there, because we had repurchased what he had left prior to that time.

The CHAIRMAN. We are going to dismiss you now from this subpoena, and we are going to have to listen to Mr. Eisen, who has been ill, and was unable to testify in Chicago. We are going to go into this case further. We will now dismiss you, if you please, and dismiss you from your subpoena.

The CHAIRMAN. Is Mrs. Mary S. Galler present?

Will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mrs. GALLER. I do.

The CHAIRMAN. Thank you. Will you please be seated?

Give your full name and address to the reporter.

#### TESTIMONY OF MRS. MARY S. GALLER, DETROIT, MICH.

Mrs. GALLER. Mary Galler, G-a-l-l-e-r, 8835 Stout, Detroit, Mich.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. You are Mary S. Galler of 8835 Stout, Detroit, Mich.?

Mrs. GALLER. Yes, sir.

Mr. SIMON. Mrs. Galler, do you and your husband own your home?

Mrs. GALLER. I do not have a husband, myself.

Mr. SIMON. Do you own your home?

Mrs. GALLER. Yes.

Mr. SIMON. Did you purchase a home remodeling job recently?

Mrs. GALLER. Well, it really was not a remodeling job. It was just an incinerator.

Mr. SIMON. When was that?

Mrs. GALLER. October 1953.

Mr. SIMON. And will you tell us what happened?

Mrs. GALLER. Well, they sold it to me on the pretense of I would have to furnish them with names and for each name that I furnished them, I would get \$5, then that would be the way I could pay off this incinerator.

Mr. SIMON. How much was the incinerator going to cost?

Mrs. GALLER. I figured it would run one-hundred-and-sixty-some dollars. I don't remember the exact amount now.

Mr. SIMON. What was the nature of the incinerator?

Mrs. GALLER. It was a gas-posal.

Mr. SIMON. How did that work?

Mrs. GALLER. You put your materials in and it had an automatic pilot light and it was supposed to burn up the garbage and rubbish.

Mr. SIMON. Was it installed in the house?

Mrs. GALLER. In the basement.

Mr. SIMON. Was it a part of the house?

Mrs. GALLER. Well, it is a separate unit the same as a washing machine is installed.

Mr. SIMON. You were going to get \$5 for each name you gave them?

Mrs. GALLER. That is right.

Mr. SIMON. Even if they didn't sell that person?

Mrs. GALLER. That is right.

Mr. SIMON. What was the name of the company you bought this from?

Mrs. GALLER. Almar Distributing Co.

Mr. SIMON. Distributing Co.?

Mrs. GALLER. Yes.

Mr. SIMON. Do you know their address?

Mrs. GALLER. At the time of the purchase agreement they had an office in Cadillac Tower and that was the only office I knew, but when I called there the first time, the girl there said she was just taking their calls so apparently they didn't even have their office there.

Mr. SIMON. Did you give them the names of any people?

Mrs. GALLER. Yes; I did. On the very first day I gave them four names.

Mr. SIMON. Did they ever pay you \$5 for any of them?

Mrs. GALLER. No; but he said I already earned \$20 which in turn I would get a bond and that bond I would turn right back to the company and that would be my payment.

Mr. SIMON. Did you ever get the bond?

Mrs. GALLER. No.

Mr. SIMON. Was this a title I loan?

Mrs. GALLER. Well, I didn't know. It was not anything so far as I was concerned except an agreement.

Mr. SIMON. Did you sign an application for a title I loan?

Mrs. GALLER. No; I didn't.

Mr. SIMON. Are you now paying a bank?

Mrs. GALLER. No; because when, about a week after the unit was installed, I received this book of coupons, or payments slips from the City Bank informing me that those were the slips I would send in with my monthly payments, that is when I called the company and I said I didn't want it financed that way. I had no intention of financing it that way, because I figured I could do it with this bond plan and then if I ran out of names, then I could always go to a place where I always do my money dealing, and then that is when they said that I had signed this FHA agreement.

Mr. SIMON. Did you sign an FHA application?

Mrs. GALLER. No; I did not.

Mr. SIMON. Have you ever gone to the bank and asked them to show it to you?

Mrs. GALLER. No; but I did get a paid-up receipt after this whole thing was over. I got a paid-up notice from the bank though I hadn't paid one penny, and it had my name on it, but it was not my signature.

Mr. SIMON. The application had your name on it?

Mrs. GALLER. It had my name on it, but it was not my signature.

Mr. SIMON. When you complained somebody paid the note; is that right?

Mrs. GALLER. When I complained, the woman said that I had signed it. I said, "No; I didn't sign any FHA agreement because I wouldn't do it that way." It was not for that amount, anyway, and she said that I signed it when the installation man took—when the installation man came to my house and installed it. I have to sign this installation receipt. She said that is when I signed the FHA agreement.

Mr. SIMON. Did you?

Mrs. GALLER. Well, I signed for the installation of the incinerator, yes, but I did not know that is the way they handled their FHA requests.

Mr. SIMON. You did not know you were signing an FHA application?

Mrs. GALLER. No; but then as it happened it was not the application because when I got this form back from the City Bank, that was the thing that I was supposed to have signed and I did not sign it.

Mr. SIMON. That was a forgery?

Mrs. GALLER. I think it was.

Mr. SIMON. Was it your signature?

Mrs. GALLER. It was not my signature.

Mr. SIMON. And do you know who did pay the note?

Mrs. GALLER. No; I do not, except that when they took the incinerator out they asked me if I would return the book of coupons to them, which I did, and so then that was all that I heard about it. Then when I got my paid-up receipt for something that I had not paid up I figured it was handled at their end.

Mr. SIMON. So you are one incinerator ahead?

Mrs. GALLER. No; they took it out.

Mr. SIMON. Thank you very much.

The CHAIRMAN. Thank you very much.

Is Marie Halbeisan here?

Mr. SIMON. Will you come forward, please?

The CHAIRMAN. Marie Halbeisan is not here.

Is Izal Crouther here, please?

Mr. Crouther, will you come forward, please?

Will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF IZAL CROUTHER, INKSTER, MICH.

Mr. CROUTHER. I do.

The CHAIRMAN. Thank you. Please give your full name and address to the reporter, please.

Mr. CROUTHER. Izal Crouther, 3660 Moore Street, Inkster, Mich.

Mr. SIMON. You are Izal Crouther?

Mr. CROUTHER. C-r-o-u-t-h-e-r.

Mr. SIMON. You live at 3660 Moore Street?

Mr. CROUTHER. That is right.

Mr. SIMON. That is Inkster, Mich.?

Mr. CROUTHER. That is right.

Mr. SIMON. Did you purchase some home repairs, or repairs to your building from the Oak Park Building & Supply Co.?

Mr. CROUTHER. Well, they were out driving past my place in early 1953, March or April, and they saw me working, Mr. Fargo, his son, Mr. Fargo, the father and Mr. Swaab.

Mr. SIMON. The three of them?

Mr. CROUTHER. In a Cadillac.

Mr. SIMON. In a Cadillac?

Mr. CROUTHER. Yes. They drove into the side of the place and saw I was working and asked me if I wanted some help. I told them I might need some help but I didn't have the money. He said, "We will help you. You don't need no money." I started to talking with them concerned about what I am doing and they said, "What are you trying to do here," so I told them I was building the porch, taking dirt out from the basement and I wanted to close it in with glass, so I says, "If I get anything done, I want the dormer brought overhead over the porch and I can rent it out."

Mr. SIMON. I am sorry—

Mr. CROUTHER. The dormer to be brought out over the head of the porch.

Mr. SIMON. The dormer?

Mr. CROUTHER. Yes; out over the porch so I could rent this out.

Mr. SIMON. You were going to rent out that space, then?

Mr. CROUTHER. That is right. That is all I could afford to pay for it because I get an income on that.

Mr. SIMON. You couldn't afford to pay for it until you rented it out and got the income?

Mr. CROUTHER. That is right.

Mr. SIMON. What did they tell you?

Mr. CROUTHER. They told me they would do it and he wrote up a contract for that and I asked what it would cost. He said it would be around \$1,600.

Mr. SIMON. \$1,600.

Mr. CROUTHER. That is right. I told him it was too stiff. We argued terrible about it. He said he couldn't get it for any less, so he went in with this contract and somehow it didn't go through. It was turned down.

Mr. SIMON. What do you mean it didn't go through?

Mr. CROUTHER. He came back and said he didn't get the deal through.

Mr. SIMON. Who came back?

Mr. CROUTHER. Mr. Fargo.

Mr. SIMON. The father?

Mr. CROUTHER. Yes.

Mr. SIMON. Did he tell you why it wouldn't go through?

Mr. CROUTHER. He didn't explain. I was not particularly anxious for it anyway.

Mr. SIMON. What happened then?

Mr. CROUTHER. He asked me about getting materials to finish my house off, which he would furnish. I did all the roof work, cased in the windows, and all I had to do was get the boards on the inside. He says, "Let me furnish you material for that." I talked with him and I says, "What would that cost?" He says, "What did I want to use in there?" And I told him this knotty pine board is what I

wanted to use, and he looked around and figured and he says, "I wouldn't be able to pay for that. That would cost so much money." I said, "Why does that cost so much?" He says, "It costs too much money, you wouldn't be able to pay for knotty pine boards to do this job." I only had 7 by 22. Most of it was windows. I didn't see why it would cost so much money, with 8-foot walls. He says, "I will get you some stuff that you will be satisfied with, don't worry about that. We will do it for \$450."

Mr. SIMON. \$450?

Mr. CROUTHER. "Send you this stuff for \$450." That is what he said it would cost. Pretty soon, I don't know, we argued around about that for a while and in a few days, I don't know just how long it was, the truck came in and I signed an agreement to take this material for \$450.

Mr. SIMON. Was that cash?

Mr. CROUTHER. That was to be financed.

Mr. SIMON. No downpayment?

Mr. CROUTHER. No downpayment.

Mr. SIMON. Paid over a 3-year period of time?

Mr. CROUTHER. That is right. He finally sent this truck out with some stuff. I wasn't there but some of my people was there when the truck arrived. I was working day shift. I got in about 4:30. He was on the phone as soon as I got in and told me the bank was going to call me concerning the stuff that was brought out there.

Mr. SIMON. Who was on the phone?

Mr. CROUTHER. The bank, Mr. Fargo, himself.

Mr. SIMON. Father or son?

Mr. CROUTHER. It was the father. He was on the phone and he says, "The bank is going to call you pretty soon concerning your job, and you tell them everything is okay, the material and work." I didn't understand what he was talking about, material and work, because there was no work to it. It was just the material he was to deliver to me. Then the bank called, and the lady called me, and she said, "How about the deal with Mr. Fargo there, the work they are going to do for you. Is it okay for me to give them the money?" So I told her, "I haven't had a chance to check the stuff yet. I just got in from work. I want to see what is here."

Mr. SIMON. What bank was this?

Mr. CROUTHER. Industrial National.

The CHAIRMAN. Industrial National Bank?

Mr. CROUTHER. Yes.

Mr. SIMON. What else did you tell her?

Mr. CROUTHER. I told her I wanted to have a chance to check the stuff. She said, "You had better hurry, because we will close pretty soon. It will be next week before you can get it done if you hold out long." I called him back to see why more stuff was not sent.

I jotted it down on the contract. It looked like it was sent out from another job. I wasn't satisfied with it. I told him I wasn't.

He said, "Don't worry, we will get the rest out, all you need and all you want," so I went to call the bank back and it was closed. I still didn't tell her she could okay the deal with him, but they finally came back out and I couldn't do no business with him. He sent the boys out, his son, young Fargo and this Mr. Swaab.

Mr. SIMON. Which Swaab?

Mr. CROUTHER. Swaab.

Mr. SIMON. Which one?

Mr. CROUTHER. I don't know. This man I noticed here.

Mr. SIMON. Gerald?

Mr. CROUTHER. I don't know the first name. I recognized him here.

The CHAIRMAN. The one that was a witness yesterday?

Mr. CROUTHER. That is right. They came out and they said, "Well, we will give you a better deal."

Mr. SIMON. A better deal?

Mr. CROUTHER. That is right. They said, "We will do better." The old man had been telling me all the time, "You ought to be glad you met me because I am your friend." I asked the boys, I says, "If he calls himself—I didn't know this was his father when I was talking because I got kind of rough, and I said, "I didn't know the old man called me his friend." Then they said, "Don't worry. We are going to give you a good deal."

They started writing up. They said, "We are going to do the work. We will do the work," he says now, "And we will furnish the material."

Mr. SIMON. This was going to cost \$600?

Mr. CROUTHER. \$600 is what they was going to charge. They talked and talked and I bothered around with them so long I just says, "Well, I will let you do it, if you will do it for \$650 and furnish the materials, I will do it," thinking all the time they were going to cancel the first one. They hadn't gotten the money. Evidently, he got the money right away on that deal.

Mr. SIMON. You thought the second was going to be \$150 more than the first one and it would cover the work on the first one, is that right?

Mr. CROUTHER. Well, this \$60 I thought was all that they were going to charge and this first deal they put through was to be canceled altogether.

Mr. SIMON. You thought the second one would include both?

Mr. CROUTHER. That is right, include the work and material. I asked him about that when he was there. He said he would have to go back and see "Dad" about it. That was when I found out he was his father. He wrote that one up.

Mr. SIMON. You later found out when they were talking to you they had already gotten the money from the bank for the first one?

Mr. CROUTHER. She must have given the money to them right away.

The CHAIRMAN. Who was "she?"

Mr. CROUTHER. The lady at the bank.

The CHAIRMAN. What name?

Mr. CROUTHER. I didn't get her name. Some lady called me. I didn't ask her name.

Mr. SIMON. Would you know her name if it was mentioned to you?

Mr. CROUTHER. I didn't ask her name.

Mr. SIMON. Well, now, did you ever sign a completion slip on the first order saying the work was completed?

Mr. CROUTHER. Well, I didn't sign but one. This carpenter, he and I was discussing quite a bit there about the work and he said, "Well, I am a disinterested party." He says, "I don't even work for the fellows. They hired me to do this work." He said they had some kind of complaint, I don't know what it was, that he couldn't do too much work and he needed money awfully bad. I felt sorry for him, when I signed it so he would get his money. He says, "Now you sign this completion

slip and I can get my money." "Otherwise," he says, "I won't be able to feed my children or anything else next week."

Mr. SIMON. He said the children couldn't eat unless you signed the completion slip?

Mr. CROUTHER. He said he wouldn't have any money. I felt sorry for him and signed it.

Mr. SIMON. Who felt sorry for you?

Mr. CROUTHER. It don't look like anybody.

Mr. SIMON. Did they ever do the work on the second contract?

Mr. CROUTHER. They didn't do anything on the first contract. They left the material there. That was all stopped right there.

Mr. SIMON. What did they do on the second contract?

Mr. CROUTHER. The second contract, they bring out some imitation knotty pine sheet rock.

Mr. SIMON. Sheet rock?

Mr. CROUTHER. That is right, and set that up in there, and it is all gapped open. There is spaces in there you can almost put your finger in and little stripping they got for the window they brought there was too short. They had to patch it. It is all there now, waiting until I can get something did about it. I am going to do it over or get somebody to do it over.

Mr. SIMON. They didn't even finish the second job?

Mr. CROUTHER. They called themselves finishing it but it is such a botched up job.

Mr. SIMON. This was in April of 1953 that you signed these two contracts?

Mr. CROUTHER. That is right.

Mr. SIMON. That is almost a year and a half ago?

Mr. CROUTHER. That is right.

The CHAIRMAN. Mr. Fargo is the owner of the Oak Park Building & Supply Co.?

Mr. CROUTHER. That is what I understood him to be.

The CHAIRMAN. He has been on the FHA precautionary list since 1945, formerly associated with Kaise, and Chisik and had his license revoked in 1952.

Mr. CROUTHER. I did not know that. He was there talking with me about the work.

The CHAIRMAN. How could he be doing business in 1953 if his license was revoked in 1952?

Was it reinstated?

VOICE. Mr. Swaab never had Mr. Fargo issued a license.

Mr. SIMON. Are you paying off both these loans at the bank?

Mr. CROUTHER. Yes, sir.

Mr. SIMON. You are paying off the \$400 and \$650 loans?

Mr. CROUTHER. That is right.

Mr. SIMON. You said the second was \$650. The contract shows \$600 for the second one.

Mr. CROUTHER. That is right.

Mr. SIMON. The first one was \$400?

Mr. CROUTHER. That is right.

Mr. SIMON. You are paying off \$1,050?

Mr. CROUTHER. That is right.

Mr. SIMON. Thank you very much.

The CHAIRMAN. Is there someone here representing the National Bank?

You brought in some records, I believe.

Mr. CRONANDER. Yes, sir.

The CHAIRMAN. You are Mr.——

Mr. CRONANDER. I am Mr. Cronander.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give will be the truth and nothing but the truth, so help you God?

#### TESTIMONY OF J. EDWIN CRONANDER, NATIONAL BANK OF DETROIT

Mr. CRONANDER. I do.

The CHAIRMAN. You are the manager of the loan department?

Mr. CRONANDER. I am vice president; under my supervision I have supervision of FHA title I.

The CHAIRMAN. What is the bank?

Mr. CRONANDER. National Bank of Detroit.

The CHAIRMAN. You are going to give us the record on one transaction we referred to yesterday.

May we see it, please?

Mr. CRONANDER. Yes, sir.

The CHAIRMAN. This was——

Mr. CRONANDER. Cosy Home Improvement Co.

The CHAIRMAN. This was the Cosy Home Improvement Co.?

Mr. CRONANDER. That is right.

The CHAIRMAN. What I was interested in was their financial statement. Will you show me that, please?

They, of course, did business both with you and the Industrial National Bank?

Mr. CRONANDER. They did business with us for a short time. I do not know exactly. I can tell by the card how long.

The CHAIRMAN. This was the same report we put in the record yesterday?

Mr. CRONANDER. Yes, sir.

The CHAIRMAN. In other words, you had the same relation the Industrial National Bank had?

Mr. CRONANDER. Yes.

The CHAIRMAN. Everything I said yesterday with respect to that goes for you today?

Mr. CRONANDER. Absolutely.

The CHAIRMAN. Is there any difference?

Mr. CRONANDER. If you will go back, we turned them down when they first came in because of inexperience and being so young, so then some time later, as the record shows, I think in 1951, they came back and said they had been in business for 6 months and would like for us to take their paper.

We knew the uncle, who is a very reputable character in Detroit and also a brother, and they both would like to have us take them on, so we did for a short time, and we bought, I think, 47 deals, and out of the 47 deals we inspected 27 of the loans, so that we knew pretty much what was going on.

The CHAIRMAN. You were a little suspicious of them all the time?

Mr. CRONANDER. They had not had the experience and were young; so we followed them up.

The CHAIRMAN. Well, what I said yesterday goes today. I shall not repeat it, because I think everybody knows what I said, and everybody knows what the record was.

I will say this: As we have said everywhere we have been it is up to you lending institutions and dealers to clean this situation up.

Mr. CRONANDER. Well, I think our bank has done a good job on that, and I think other banks have done a good job.

The CHAIRMAN. I think that is true. I shall make a statement when the hearings are closed this morning or later this afternoon. I will make a statement that not everybody is involved, and FHA has done many good things.

I will make that statement but I do want to say this: that I hope so much that the lending institutions and dealers in Detroit, Chicago, Indianapolis, and every other town will clean up their own situation.

I think you can and I feel confident you will from this time on. Do you have any questions?

Mr. SIMON. No, sir.

Mr. DINKINS. I have one question, sir.

Do you have any idea about how many FHA title I loans you have made in the Detroit area?

Mr. CRONANDER. Yes.

Since 1948 we have made \$138,695 worth of loans.

I might state our claim ratio was 0.48, in the 1950 act and the United States lenders all over the country were 0.79, another reason I do not want to be classified as being careless, either.

The CHAIRMAN. I want to say this, the collection record has been good. That is not the thing that concerns us so much at the moment. The thing that concerns us is the homeowner is the one that has been fleeced.

We put in the record here this morning a case where the salesmen themselves, these suede-shoe fellows, took \$101,000 out of \$200,000 in sales.

Now we know the collection record has been good and we know in all fairness to the lenders that they put up several hundred million dollars in a reserve fund to take care of losses, and the losses have not nearly been as much as the reserve fund.

We know that. We also know when the lender cannot collect the money he goes back to this reserve fund and gets his money. He goes back to this reserve of fund and gets his money and then the Federal Government proceeds to collect it, meaning the Attorney General proceeds to collect it.

The Federal Government can generally collect money.

Mr. CRONANDER. That is right.

Mr. SIMON. I am sure I would be frightened if they came around to see me.

They have not yet but I know I would be frightened as everybody else is.

Our concern is in protecting the homeowner.

Mr. CRONANDER. Our concern is that, too.

The CHAIRMAN. Yours is that, too. Our concern is the homeowner and it is the homeowner that has been fleeced out of—we have no idea.

This morning we placed in the record evidence that \$75,000 or \$80,000 in that one little firm, where these dynamiters, these suede-shoe salesmen, worked on this particular deal and went out and took it from people that can't afford to lose it, unsuspecting people, which the Federal Government should be protecting.

It is up to the lenders and dealers to protect those good people.

Mr. CRONANDER. I think the banks are trying to do that.

The CHAIRMAN. We want them to do it from now on.

I might say for the benefit of you people and all concerned that Mr. Hobby will be our last witness, except there are a few questions we want to ask the State FHA director in connection with what Mr. Hobby is going to testify to.

After we have heard Mr. Hobby and the State FHA director and Mr. Helies—is he present?

Mr. SIMON. Is he going to be here, Mrs. Helies?

Mrs. HELIES. I don't know whether he will be.

The CHAIRMAN. I believe the Industrial Bank people had some records they were going to bring in. Is that correct?

VOICE. That is correct.

The CHAIRMAN. Will you show those to Mr. Dinkins here and we will extract whatever information we may desire.

Now you may be sworn.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF JOHN HOBBY, WALLED LAKE, MICH.

Mr. Hobby, I do.

The CHAIRMAN. Thank you, sir.

Please be seated and give your name and address, and when we are finished with this witness, and some information we want from the State director, we will be finished.

Mr. HOBBY. John Hobby, 2148 Hoff Drive, Walled Lake, Route 1.

Mr. SIMON. Suppose you proceed just to tell us what your problem is in connection with a certain project here.

Mr. HOBBY. Senator, when we bought these homes, we bought—

The CHAIRMAN. Who are "we"?

Mr. HOBBY. Everybody out there.

The CHAIRMAN. How many people?

Mr. HOBBY. There are 26 in our street and I understand there are 129 on Decker Road, which now in Walled Lake the residents call Tobacco Road.

The CHAIRMAN. Where is this located?

Mr. HOBBY. Walled Lake, about 20 outside of Detroit.

The CHAIRMAN. Outside the city limits?

Mr. HOBBY. Yes, sir.

The CHAIRMAN. There is no gas or water out there?

Mr. HOBBY. No, sir.

The CHAIRMAN. Each home has its own septic tank and own water system and own well?

Mr. HOBBY. That is right.

The CHAIRMAN. It is outside the city limits?

Mr. HOBBY. Yes, sir.

The CHAIRMAN. Just what is the complaint?

Mr. HOBBY. When we first moved in there, sir—

The CHAIRMAN. When was that?

Mr. HOBBY. I moved in on the 17th of June. I made—

The CHAIRMAN. What year?

Mr. HOBBY. 1954.

The CHAIRMAN. You moved in on June 17, 1954?

Mr. HOBBY. Yes, sir.

The CHAIRMAN. This is a project with how many houses you say about?

Mr. HOBBY. 260 on our street that is off drive and on Decker Drive which is about 2 miles down. They bought all that property and I understand are putting up 129 of them.

The CHAIRMAN. What is your complaint? Tell it to us if you will, please.

Mr. HOBBY. When we moved in there right from the first week, first of all Mr. Fornier.

The CHAIRMAN. Who?

Mr. HOBBY. Mr. Fornier.

The CHAIRMAN. Who built the houses.

Mr. HOBBY. Coldwell Homes.

The CHAIRMAN. Coldwell Homes?

Mr. HOBBY. Yes.

The CHAIRMAN. Where are they located?

Mr. HOBBY. Telegraph and West Maple Homes.

The CHAIRMAN. Did they sell the homes?

Mr. HOBBY. Yes, sir, they are National Homes, prefabs.

The CHAIRMAN. Did you buy your home from them?

Mr. HOBBY. Yes.

The CHAIRMAN. These are National prefab homes?

Mr. HOBBY. Yes.

The CHAIRMAN. And Mr. Coldwell installed them?

Mr. HOBBY. Yes.

The CHAIRMAN. He sold them to you, constructed them, built them up?

Mr. HOBBY. He had an order to build them.

The CHAIRMAN. He did the septic tank and all the work?

Mr. HOBBY. Yes.

The CHAIRMAN. What is your complaint?

Mr. HOBBY. When we moved in the first week, I asked Mr. Fornier—he would not give us our keys until we signed the papers. He would not give us a copy of the specs, which are FHA specifications, supposedly.

A week after we moved in I was going to put my television antenna on. I went up on the roof and the roof is an inch to 2 inches gaps which your investigators will verify, distinct from the homes.

The CHAIRMAN. What do you mean by the distinct?

Mr. HOBBY. The smell.

The CHAIRMAN. Where does the smell come from?

Mr. HOBBY. The septic tanks are in the yard.

The CHAIRMAN. One for each home?

Mr. HOBBY. Yes, sir.

The CHAIRMAN. They are in the yard?

Mr. HOBBY. Yes, sir.

The CHAIRMAN. How deep are they buried?

Mr. HOBBY. I don't know. They are FHA specifications. There are supposed to be 300 feet or yards of drain tile.

The CHAIRMAN. This stench is coming from the septic tanks.

Mr. HOBBY. Yes, sir. You can't watch television. We are ashamed to have company come out. We were proud when we moved in but now——

The CHAIRMAN. Have you taken this matter up with the local FHA office?

Mr. HOBBY. Yes, sir. Here, I have got——

The CHAIRMAN. Have you taken it up with the builder?

Mr. HOBBY. Yes, sir.

I threatened to beat him, I coaxed him, and everything. He told me I got just what I bought, a cheap home.

The CHAIRMAN. You may have got a cheap home but you did not buy the stink, did you?

Mr. HOBBY. No, sir. FHA refused these, by a minister over there and I have him. Fornier went around to the people afterward, the next day, and said I was using mob violence and also stated I had a false or a fake minister going to FHA.

The man is right here in the building with his papers to prove he is a minister if you want to see him. They won't do anything for them until I got the people. There is a paper with some names on it that I got the people to sign.

Some of them had backed down because Fornier promised them stuff.

The CHAIRMAN. When were these homes constructed?

Mr. HOBBY. They started in May.

The CHAIRMAN. Of this year?

Mr. HOBBY. Yes, sir.

The CHAIRMAN. They were finished?

Mr. HOBBY. Yes, sir.

Here is another thing——

The CHAIRMAN. Do you say you have taken this up with the FHA office here?

Mr. HOBBY. Yes, sir.

The CHAIRMAN. Who did you take it up with in the office?

Mr. HOBBY. Reverend Wilson took all these papers down and they refused them because they wanted you fellows, out of this town, I think——

The CHAIRMAN. Who were they?

Mr. HOBBY. FHA.

The CHAIRMAN. When did you take them to FHA?

Mr. HOBBY. About 2 weeks ago. They refused them because the code number was not there. Our FHA numbers are all on the papers. You can see what they are. I want to thank you for listening to it yesterday the way you did. If you can't help us you can save a lot of people from being cheated out like this. It is a sign. Those homes are put up with one and five-eighths by two and a half and I am in construction.

The CHAIRMAN. Is it the fault of the prefab houses or the fault of the contractor who installed them or put them up?

Mr. HOBBY. It took them 7 hours, these salesmen brag it takes them 7 hours to put a home up for \$7,000. I mean if we pay \$40 a month for 30 years it amounts to \$13,000.

The CHAIRMAN. What did you pay for the home?

Mr. HOBBY. \$1,067.

The CHAIRMAN. What are your monthly payments?

Mr. HOBBY. \$40 a month.

Right there it says "restrain every 2 or 3 years." A week or two after we were in there the first rain we had it washed down. The homes are not insulated the way the specs call for. They brought a 2-gallon stain to my wife and told me to put it on and I told them where they could stick to it. It is their baby, not mine.

The CHAIRMAN. Where do you work?

Mr. HOBBY. I am a painter, in construction.

The CHAIRMAN. You are a painter?

Mr. HOBBY. Yes, sir.

The CHAIRMAN. Is the State FHA man here?

Mr. HOBBY. Mr. Fornier offered to buy my home back if I would keep quiet.

The CHAIRMAN. Will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF WENDELL O. EDWARDS, DIRECTOR, AND HAROLD STEFFEY, ASSISTANT, DETROIT, FEDERAL HOUSING ADMINISTRATION

Mr. EDWARDS. I do.

The CHAIRMAN. Give your name and address for the record.

Mr. EDWARDS. Wendell O. Edwards, 339 Penobscott Building, Detroit, Mich.

The CHAIRMAN. Are you the FHA Detroit director?

Mr. EDWARDS. Yes, sir.

The CHAIRMAN. How long have you been the director?

Mr. EDWARDS. June or July of 1953.

The CHAIRMAN. Did this gentleman take this matter up with your office?

Mr. EDWARDS. Not to my knowledge, Senator.

The CHAIRMAN. If he took it up do you think he took it up with someone working for you over there?

Mr. EDWARDS. The evidence we have which is here in my hand is that he wrote to us or filled out for us a complaint form on September 4. We received it in our office, with out mail stamp, on September 13. On this complaint, he had not listed the FHA application or case number.

Mr. HOBBY. Mine was on there from the start.

The CHAIRMAN. Let Mr. Edwards testify.

Mr. EDWARDS. It is not on there. We therefore wrote to Mr. Hobby to ask him what his case number was. That is our standard procedure.

Mr. HOBBY. I never got a letter.

Mr. EDWARDS. We wrote on September 20, to the exact address which he filled in on his complaint form. We have not received an answer which of course was just in last Monday.

Mr. HOBBY. Senator, I never received such a letter and my code number is right on the letter there, that there one at the top. That is the builder number and the builder would not give it to us.

FHA stinks in this town. And a minister that took them to the FHA is right here in the courtroom.

The CHAIRMAN. Please, we are only looking for facts now.

Mr. HOBBY. They are all here. These homes should never have been finished under FHA. A land contractor could not even sell them one. If we can't trust our own Government, who are we going to trust?

The CHAIRMAN. I was under the impression that is what we were doing out here.

Mr. HOBBY. You are doing a wonderful job. You are going to help us little people.

Mr. EDWARDS. May I say, Senator, that when we get the proper information from Mr. Hobby, we will make a special inspection, as is our procedure on all customer complaints of this sort, and if his charges are found true, we will require the builder, as we always do—

The CHAIRMAN. You have not as yet sent personnel to inspect this?

Mr. EDWARDS. No. We have to have a case number so we can pull our application and our material out of our files.

The CHAIRMAN. It was only a couple of weeks ago that this came up?

Mr. EDWARDS. That is right. It is a very new complaint. We are awfully busy.

The CHAIRMAN. Let me say this, and I say this because I want to get to the bottom of it. We received this complaint ourselves yesterday afternoon and we immediately sent our people out to take a look.

Mr. HOBBY. Put your people on the stand. Let them tell you.

The CHAIRMAN. I want to say I am a little surprised that, case number or no case number, you would not have sent someone out there to inspect this project.

Mr. EDWARDS. We have quite a few complaints in our office—not a lot of them—but we have thousands of applications and we have standard procedure to go through.

The CHAIRMAN. You have thousands and thousands of cases.

Mr. EDWARDS. We adjust many cases and we will get to this one.

The CHAIRMAN. You will get to it?

Mr. EDWARDS. Yes, sir.

The CHAIRMAN. We sent our men out to inspect it last night.

I shall say this, the story they brought back is very, very discouraging.

Father, do you want to say something?

Mr. WILSON. I am not a member of the Roman Catholic Church. I am pastor of the Central Bible Temple in this town. I have not met this man. I was in his drum corps. He was a drum major. I wanted to get an improvement on my timing as far as leading music is concerned which is beneficial to me in church work and as a result I joined his drum corps.

And so I was very much worried when he came to me and told me how terrible things were out there. I talked over the matter with the man in charge of our church. I am the director of pastoral missions

of the church and he said, "Why don't you go out there? There are new homes going up out there. Maybe we can place a new minister out there. We may have a lot of men seeking placement as ministers."

I went out there and stopped at Hobby's home. He said frankly, I don't think you would talk to anyone out here unless you come out with a big crusade to talk about these houses. He said, "These houses stink." Then I noticed it myself. First I looked at the dog inquiringly and looked around the room and I found that nobody could be violating decency in that manner, and he finally said, "That odor you smell is the septic tanks."

In my final investigations, as these people sent in their letters I sent them into the Detroit News editorial department and one of the remarks—

The CHAIRMAN. Did you talk to anyone at FHA?

Mr. WILSON. I certainly did.

The CHAIRMAN. Who did you talk to?

Mr. WILSON. Mr. Baumgart of Detroit News was supposed to have discussed this slightly with you at a dinner which you held here about 3 weeks ago.

The CHAIRMAN. Who did you discuss it with at FHA?

Mr. WILSON. First I went to Mr. Baumgart, of Detroit News.

The CHAIRMAN. Who did you talk to at FHA, please?

Mr. WILSON. I spoke to this man's assistant because he was not able to see me, because Mr. Edwards was in but not able to see me.

Mr. EDWARDS. This is my assistant.

Mr. WILSON. I spoke to a lady at the desk.

She said this gentleman would see me.

She said you could probably handle the complaints. I received the forms, approximately 30 of them, and took them out to this neighborhood and gave them to Mr. Hobby, and he distributed them around the neighborhood as many as he could.

Then I told him that the Detroit News wanted a signed statement and they drew up a composite letter listing all the things that were wrong with the houses, including one particular place where the ground had broken open and the septic thing was bubbling right up onto the surface of the ground.

To date we have not seen the article in the Detroit News. However, I went further than that. I went to the security commission.

I obtained the information, gave that to Mr. Hobby as well, telling him how to write a letter to the security commission about each individual who would have to write a letter about his own complaint.

The CHAIRMAN. Let me give you my observation of this whole business.

No. 1, we sent people out to inspect these houses. There is a stink job there, and it is not good. That is No. 1.

No. 2, I think you people, including Mr. Hobby, should have gone to the FHA and impressed upon them the importance of this rather than going to the newspapers.

Mr. WILSON. I did not know how to handle it.

The CHAIRMAN. You should have made an effort to clean it up and given FHA sufficient time to do it. I also think maybe FHA ought to have more people in their offices or at least they should have a system whereby when they get complaints of this sort they can handle them more hurriedly. Get into them and get them handled.

I am going to suggest—we sent people out there last night. The situation is not good, according to our people. I am going to suggest and I know Mr. Edwards will do it, that he get right into this thing with both feet and we are going to follow through on it.

We can't do much, of course, as a committee out of Washington because it is a matter for the FHA to handle.

I feel confident they will.

Is the builder here that built them?

(No response.)

Mr. EDWARDS. I don't believe the Coldwell Homes is represented, Senator.

May we make a short statement?

The CHAIRMAN. Yes, sir.

Mr. EDWARDS. I want Mr. Steffey who has charge of customer complaints to make it.

The CHAIRMAN. You have been with FHA many years?

Mr. STEFFEY. Yes, sir. I joined the FHA organization in 1935.

The CHAIRMAN. You are still there as assistant director?

Mr. STEFFEY. Yes. I am Mr. Edwards' assistant.

The CHAIRMAN. What do you know about this?

Mr. STEFFEY. The history of the Detroit insuring office is we always recognize complaints as we receive them. It is indicated by the fact we prepare that form so we can get the proper information. We draw that up and we give it to people. We have a policy in the office that we do not accept petitions—this is wrong, that is wrong. What we want is to have them give us the specific thing that is wrong with their own house. That is what we want them to give us, what is wrong with their own house. Upon receipt of that complaint—this is the regular procedure—upon receipt of any complaint, we first look up to see whether or not we have actually insured the mortgage, and that way we know that we have made the final inspections. We know that.

Mr. HOBBY. I have got a 7-year-old kid that could make a better inspection.

The CHAIRMAN. Please, now, please.

I want to say, Mr. Steffey, this letter is signed by you.

Mr. STEFFEY. It is a form letter. The girl just sent it out to get the case number.

The CHAIRMAN. I am not too enthusiastic about it. I know this is the letter FHA has been using all over the United States for many years. I am not very enthusiastic about it. I will tell you why. In the second paragraph it says:

It is suggested you contact the bank or mortgage company handling your loan and ask for the FHA case number.

Mr. WILSON. That is where we had our difficulty.

The CHAIRMAN (reading):

The FHA case number will begin with 28 and there will be 6 additional numbers following.

It seems to me that FHA ought to be able, when a citizen writes in, to be able to look the information up themselves instead of sending back a form letter such as that.

I am not criticizing you or this office, or Mr. Edwards, because that is the procedure that has been used all over the United States for 20 years.

Mr. STEFFEY. I would like to point out we have no way of looking it up. All applications are received from the lender and filed in the lender's name. We have no way of looking it up.

The CHAIRMAN. I think maybe there is a better way of doing it. That wouldn't set very well with me if I was a citizen and I got that kind of a letter.

Mr. STEFFEY. We follow the established procedure.

The CHAIRMAN. We have found it has been used all over the United States. I am not criticizing you because this same letter has been used for 20 years by every FHA office in the United States, but I think it ought to be changed.

I think we ought to give better service to the people. I know they get unreasonable at times, and I think maybe you are a little bit unreasonable.

Mr. HOBBY. If you had to live with that smell you would be unreasonable, too.

The CHAIRMAN. I know what you mean. As I say, you have to be reasonable and give them a little time to straighten it out.

Mr. HOBBY. I am not very intelligent——

The CHAIRMAN. Yes; you are.

Mr. HOBBY. Why couldn't FHA stop the building on that project to help these other people. We are stuck. There is nothing we can do. The homes are mortgaged for 30 years and won't stand 5.

The CHAIRMAN. Let's get the matter straightened out without getting into personalities. We sent our people out there and it isn't good.

Mr. HOBBY. I am thankful you did.

Mr. STEFFEY. Septic tank——

The CHAIRMAN. You have been out there for 4 months and it has been bad for 4 months. Give these people a couple of weeks time to help you; will you?

Mr. HOBBY. Yes, sir.

The CHAIRMAN. I know you will.

Mr. HOBBY. What about our painting of our homes and stuff like that on there? I understand FHA makes them guarantee our homes for 12 months, like the stain on our homes. It says restrain them every 2 or 3 years.

The CHAIRMAN. You get into those details with Mr. Evans and Mr. Steffey. They are reasonable people.

Mr. WILSON. I quite agree with your remarks just made, sir. This particular case has been held up 1 week. It could have been received by FHA 1 week earlier had their receptionists accepted those papers without the case number, but she gave them back to me and I took them out to Walled Lake and gave them to Mr. Hobby. She said I shouldn't bring them in in one bunch and that every one has to have their case number on them. This is the receptionist at their desk.

The CHAIRMAN. Let me say this——

Mr. WILSON. It would have to have the case number on it and they would have to be mailed in individually.

The CHAIRMAN. Let me say in all fairness to these people they would have to have the case number in order to get the builder's name and who held the mortgage, you see. They would have to have that.

Mr. WILSON. It seems the owners didn't know that, though.

The CHAIRMAN. Let me say this to you: The normal complaints that come in they could handle on that basis but I think this one was a little abnormal, at least according to our inspectors.

Mr. HOBBY. Senator, what about that—

The CHAIRMAN. They had no way of knowing that. FHA had no way of knowing that unless you told them that.

Mr. WILSON. I tried to make appeals to her the first time I went in. She could clearly see I was a minister, and she took me into this man's office and I came out with 30 sheets to take out. I took them out and delivered them.

The CHAIRMAN. I think 30 days from now we will all be happy and we will all be happy and we will get it straightened out.

Mr. HOBBY. Can a house be finished under FHA that has a  $1\frac{5}{8}$  by  $2\frac{1}{2}$  depth for the load bearing, financed for 30 years?

The CHAIRMAN. I cannot answer that.

Mr. HOBBY. I can.

The CHAIRMAN. Not without having the rules and regulations before me.

Mr. HOBBY. We never got the specification. They hold them. They wouldn't give us the specifications.

The CHAIRMAN. The new law which we just passed which I introduced this year requires they give you the specifications.

Mr. EDWARDS. That builder's warranty is a very good provision.

The CHAIRMAN. I introduced that.

Mr. EDWARDS. The Oakland County Sanitarium and not our office passes on all septic-tank installations.

We look it over but it is the county sanitarium's responsibility and a complaint to his office on this particular septic tank will get awfully fast action.

The CHAIRMAN. Your situation now is one that will require the county and the FHA and your cooperation and everybody's cooperation to get it straightened out.

Mr. HOBBY. Yes, sir.

The CHAIRMAN. As I say, we put through a new law this year that requires the builder to give the buyer, such as yourself, the specifications.

Likewise, the appraisal, so we are going to do what we can to get this matter straightened out.

Mr. HOBBY. I want to thank you again.

The CHAIRMAN. We appreciate your calling it to our attention. I know Mr. Edwards and Mr. Steffey will work with you.

Mr. HOBBY. All I wanted to do when I came here, if we can't get ours fixed, to stop them from sticking other people.

The CHAIRMAN. The only way you will improve methods is to know wherein you have been wrong. As a result of this, they will be able to improve their methods.

Please don't get angry now and work with them, rather than being angry at them.

Mr. HOBBY. No; all I want is a new roof, my house painted, and that smell gone. I am satisfied I will have to do the rest. I will get a home improvement loan next year. We need it.

The CHAIRMAN. There are some people here we might recommend to you.

Mr. HOBBY. At least my credit is good.

The CHAIRMAN. I am just about ready to close the Detroit hearings. I want to say this: That FHA has handled millions and millions of loans and there have been millions of good ones where there have been absolutely no irregularities. There have been thousands and thousands and millions of loans, and cooperation of bankers and builders in connection with them has been just excellent. FHA has done a good job, and it is going to continue to do a good job. The purpose of this investigation is to just eliminate to the minimum these misunderstandings and these troubles and problems. We are interested in protecting the people. We are not worried about the banks, or worried about FHA. We want to protect the people. That is what we want to do. There are a lot of honest builders in Detroit as there are in every other city that the people can depend upon, a lot of them—the great majority, the big majority—by far the big majority of them, and that is true of your FHA employees. The great, great big majority are conscientious fellows and ladies that want to help. I am sure that is true in your case here. They will get right into this business and help straighten it out, and that is what we want to do. We are not here to persecute anybody. We want the facts. Sometimes they are a little hard to get. Likewise this investigation hopes to throw light upon this whole subject so the people can be better advised as to what to expect and they can protect themselves against these irregularities that are dealt in by a small minority of people dealing in every aspect of FHA.

I see the gentleman on his feet back there. Do you have something you want to say?

Mr. DUPRE. Yes; you know I gave you a note yesterday, DuPre—

The CHAIRMAN. You wanted to make a statement?

Mr. DUPRE. A complaint against a company that did some work for me.

The CHAIRMAN. Let us hear you when we get through. We will take it up with the company.

Does anybody know any reason why we should not recess?

VOICE. Senator, I would like you to hear the commission on corporate securities and the other gentlemen over here.

They removed my license by force, according to the Michigan law.

The CHAIRMAN. We have just been into that with you. We had our boys talk to you about that a minute ago.

VOICE. Yes. I would like you to know what is going on in the city of Detroit in the Michigan Securities Commission. Nobody knows what is going on in the office. I want to prove it to you. You see these two gentlemen here?

The CHAIRMAN. Yes. We have gone into it with you this morning. We will go into it further.

Is there anybody who knows of any good reason why we shouldn't recess at 25 minutes to 1?

Does anyone know any reason why we shouldn't recess the Detroit meetings?

VOICE. I would like to know why none of our Detroit building multiples have not been investigated.

The CHAIRMAN. We are still working on them. There are thousands and thousands of them in the United States, section 608's, rental property, and we just cannot get into them until they mortgaged out more than a hundred percent. The law said 90 percent of a hun-

dred. If we tried to do anything other than take those beyond a hundred percent it would take a thousand people. I want to say this: That your section 608 projects in Detroit are fairly good. We found very little mortgaging out, in all fairness.

VOICE. You have checked that?

The CHAIRMAN. Yes.

We haven't checked them all but we have checked many of them. We find in almost every instance they have almost a hundred percent of their money back, but they didn't get any to put in their pocket.

Generally speaking, it has been pretty good.

Thank all of you. I want to thank the marshal and the people running the building here and the newspapermen and the radiomen and everybody for being so nice to us.

We will now recess.

(Whereupon, at 12:38 p. m., the committee recessed to reconvene at 10 a. m., Monday, September 27, 1954, in New York City.)

# FHA INVESTIGATION

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MONDAY, SEPTEMBER 27, 1954

UNITED STATES SENATE,  
BANKING AND CURRENCY COMMITTEE,  
*New York, N. Y.*

The committee met, pursuant to recess, at 10 a. m., Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Bush, Payne, and Beall.

Also present: William Simon, general counsel, and Clarence E. Dinkins, assistant counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

This is the Senate Banking and Currency Committee, the full committee—it is not a subcommittee—acting under Resolution 229, a resolution introduced by the late Senator Maybank, of South Carolina, and myself, to investigate the Federal Housing Administration, which resolution was unanimously passed by the committee and unanimously passed by the Senate.

We have been investigating this matter now for some 4 months. This, I believe, is our 38th or 39th day of hearings. We will be here and hold hearings here today and on Thursday and Friday. There will be no hearings on Tuesday and Wednesday. We will again hold hearings in Washington, D. C., next week, starting Tuesday. We will hold hearings on Tuesday, Wednesday, Thursday, and Friday in Washington, at which time we hope to close our inquiry into this matter.

We have present this morning Senator Bush, from Connecticut, Senator Payne, of Maine, and Senator Beall, of Maryland. I will be present today and will not be present on Thursday and Friday, at which time Senator Bush will act as chairman of the committee; on Thursday and Friday of this week and possibly this afternoon.

I want to say this: We held hearings in New York 1 full week some 5 weeks ago. At the conclusion of our hearings here on Friday, and this goes for the hearings we held some 5 weeks ago, if there is any person whose name was mentioned publicly in these hearings, or any witness, or anyone who feels that they have been injured, directly or indirectly, as a result of any testimony or anything that was said, and they feel they ought to make a statement, we will be glad to hear them in public in Washington next week. Or they may file a brief or they may write a letter and we will publicize it as much as we can and make it a part of the record.

I would like to repeat that if I may: Any witness or any person whose name was mentioned by a witness inadvertently or purposely—and it happens both ways—anyone that feels that they were injured or that the facts were not as they should have been and they know

the facts—in other words, I will put it this way: If the facts are other than that which was brought out, at least they feel the facts are other, we will be very happy to hear them in Washington in order to correct what they feel may be an injustice or they may file a brief by their attorney or they may write us a letter and we will make it a part of the record.

You also know that every witness is entitled to have his attorney and that we are interested in the facts and only the facts. We do the best we can to be fair to everybody and I think when we say that we will permit anyone that feels that they were injured to appear in public and straighten the matter out, we are going as far as it is humanly possible to do so under our system of investigation by the Congress, which I am very much in favor of and I know you all are.

Our first witness this morning will be Miss Nettie Levy. Will you please come forward, Miss Levy? Will you take a seat over there, Miss Levy? Will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF MISS NETTIE LEVY, FARRAGUT GARDENS,  
BROOKLYN, N. Y.**

Miss LEVY. I do.

The CHAIRMAN. Thank you.

Will you please be seated and give your full name and address to the reporter for the record?

Miss LEVY. Nettie Levy.

The CHAIRMAN. Will you put the microphone before you so we can hear a little better? This is a rather large room.

Miss LEVY. This is rather new for me.

My name is Miss Nettie Levy, 3105 Brighton Third Street, Brooklyn.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Miss Levy, were you employed as a bookkeeper by either Abraham Traub or the law firm of Dyer & Traub?

Miss LEVY. I was.

Mr. SIMON. During what period of time?

Miss LEVY. During the period of 1943 through 1948 or 1949. I left in 1949.

Mr. SIMON. What time in 1949?

Miss LEVY. November.

Mr. SIMON. Were you there again for a short period of time in 1950?

Miss LEVY. Yes, on a part-time basis.

Mr. SIMON. During what part of 1950 were you there?

Miss LEVY. April through December, I believe.

Mr. SIMON. What were your duties?

Miss LEVY. I kept the books.

Mr. SIMON. Were you in charge of the books?

Miss LEVY. Yes, I was.

Mr. SIMON. I understand you had a girl helping you.

Miss LEVY. I had an assistant.

Mr. SIMON. What books were there of the firm?

Miss LEVY. There were the usual books, the checkbooks, the cash-books, and the ledgers.

Mr. SIMON. By "checkbooks" you mean books from which you took checks to make them out and which contained stubs where you would indicate the person to whom the check was paid?

Miss LEVY. That is correct.

Mr. SIMON. And a cash receipts and cash disbursements book?

Miss LEVY. That is correct.

Mr. SIMON. And then were there subsidiary ledgers for each account?

Miss LEVY. There were.

Mr. SIMON. For each check that you drew, Miss Levy, during the time you were bookkeeper, did you make an entry in the cash disbursements journal?

Miss LEVY. Yes; I did.

Mr. SIMON. And for each subentry, was there a subsidiary ledger account on which you posted that item?

Miss LEVY. Yes, sir.

Mr. SIMON. Were there ever any items for which you made disbursements which were not posted on a subsidiary ledger account?

Miss LEVY. Just the general office expense items.

Mr. SIMON. And what would they consist of?

Miss LEVY. General office expenses.

Mr. SIMON. By that you mean—

Miss LEVY. Payrolls, office expenditures for stationery or anything that would relate to a miscellaneous item.

Mr. SIMON. Was it your practice or did you frequently have occasion to draw checks in relatively large sums of money payable to the order of cash?

Miss LEVY. I drew checks to the order of cash on occasion.

Mr. SIMON. And how were they posted in the cash-disbursements book?

Miss LEVY. To the account for whom it was drawn.

Mr. SIMON. How would you know the account to which it was drawn?

Miss LEVY. I was told.

Mr. SIMON. By whom?

Miss LEVY. Mr. Traub.

Mr. SIMON. And then would those be posted in a subsidiary ledger?

Miss LEVY. Yes; they were.

Mr. SIMON. In the year 1949, prior to November, when you left, there were a total of 15 checks totaling \$57,000 drawn to cash.

Were each of those checks posted, not only in the journal but also in a subsidiary ledger to some account?

Miss LEVY. Yes; anything that I drew would be posted to the cashbook and then to the subsidiary ledger.

Mr. SIMON. Just as an example, Miss Levy, on April 18, 1949, there was a check drawn on the Montrose Industrial Bank to the order of cash for \$15,000. I don't suppose you would have any recollection today what that would be for?

Miss LEVY. Definitely not.

Mr. SIMON. How would that be handled?

Miss LEVY. I would have gotten instructions as to what matter it related and would have posted that particular account.

Mr. SIMON. Would you ever have drawn such a check without being told to whom the item was to be charged?

Miss LEVY. I don't recall that.

The CHAIRMAN. You say the item would be charged to someone; you mean it would be charged to John Smith or the account of John Smith?

Miss LEVY. Our records were set up slightly different than that. It would be set up under the name of "Premises." Many people might be interested in the same piece of property. Consequently, I would post to the property involved.

Mr. SIMON. In other words, if one of these checks had to do with Farragut Gardens, for example, you would have a subsidiary ledger sheet for Farragut Gardens?

Miss LEVY. I would have a ledger which would, for, let's say, 100 Avenue Z, and that item would have been posted to the page of 100 Avenue Z. It referred to whatever the premises was.

Mr. SIMON. If this \$15,000 check was in connection with the property at 100 Avenue Z, then you would have posted it to that subsidiary ledger?

Miss LEVY. That is right.

Mr. SIMON. And there was a subsidiary ledger for every account for which you made a disbursement?

Miss LEVY. That is correct.

Mr. SIMON. Now, as I understand, Mr. Traub owed some money to a man named Schoenfeld.

Miss LEVY. That is correct.

Mr. SIMON. Did you have a subsidiary ledger account for Schoenfeld?

Miss LEVY. Yes; we did.

Mr. SIMON. Whenever you paid money to Schoenfeld, was that entered in the subsidiary ledger for Schoenfeld?

Miss LEVY. When it was a straight exchange item.

Mr. SIMON. What do you mean by that?

Miss LEVY. There were loans made to the firm by Mr. Schoenfeld. If it was in connection with a repayment of a loan, or if I had no further information, it would be posted to the order of Mr. Schoenfeld.

The CHAIRMAN. Could it be possible that it was for other than repayment of loans?

Miss LEVY. That I wouldn't know.

Mr. SIMON. Was there any money ever paid to Schoenfeld other than in repayment of loans?

Miss LEVY. I wouldn't know.

Mr. SIMON. Do you recall ever having posted an item paid to Mr. Schoenfeld, any place other than on his account?

Miss LEVY. He might have been interested in some property matter and in that case it could have been posted to the property involved.

Mr. SIMON. In that case he would be a client or one of the clients interested in a piece of property; is that right?

Miss LEVY. Well, interested in some fashion, whether it was directly for the purchase of property I wouldn't know. It might have been against a loan on that property.

Mr. SIMON. In other words, he might have made a loan to the sponsors of the property and in that case money paid to him would be charged against the ledger?

Miss LEVY. The loan might have gone through our office and so we would repay on that property. Wherever I had that information it would be posted to that account.

Mr. SIMON. The important thing I would like to get is that every item paid to Schoenfeld was posted on a subsidiary ledger against some account?

Miss LEVY. Somewhere in the ledger.

Mr. SIMON. And if it was repayment of his loan, it was posted on his loan account?

Miss LEVY. Whenever I had that information.

The CHAIRMAN. Why, if you know, were you dealing in such large cash amounts? Ordinarily business transactions are done by checks. Why were you dealing, if you know—you possibly do not know—with such large cash accounts?

Miss LEVY. I wouldn't be able to answer that. I was only following instructions.

The CHAIRMAN. You wouldn't know of your own accord as to why—

Miss LEVY. No.

The CHAIRMAN. You were dealing in such large amounts. Was all the business of Mr. Traub transacted in cash?

Miss LEVY. Not all.

The CHAIRMAN. Why was part by cash and why part by check?

Miss LEVY. I wouldn't be able to answer of my own accord.

Mr. SIMON. Did you frequently go to the bank to cash checks for thousands of dollars?

Miss LEVY. I might have gone on occasion.

The CHAIRMAN. If you didn't go who did go to cash the thousands of dollars worth of checks?

Miss LEVY. My assistant or else one of the men in the office.

Mr. SIMON. Who is Mary G. Pace?

Miss LEVY. A young lady in the employ of Mr. Traub.

Mr. SIMON. Who was Leonard H. Rothberg?

Miss LEVY. He was a former clerk.

Mr. SIMON. Who was Morton S. Robson?

Miss LEVY. I don't recall that name. It might have been a clerk. We had many of them. I can't remember all the names.

Mr. SIMON. Do you recall the name of Sol Harf?

Miss LEVY. Yes, I do. Yes.

Mr. SIMON. Who was he?

Miss LEVY. An employee of Dyer and Traub.

Mr. SIMON. On October 20, 1949, which would be just before you left, he cashed a check for \$21,000 to cash. Since that was just before you left, would you have any recollection of what that was for?

Miss LEVY. I can't recall that now. It is several years since I have been with the firm.

Mr. SIMON. You would have no idea what that \$21,000 was for?

Miss LEVY. No; I couldn't possibly remember that.

Mr. SIMON. But you do know it was posted to some subsidiary ledger account?

Miss LEVY. It would have been posted somewhere; yes.

Mr. SIMON. You had a cash disbursement book?

Miss LEVY. Yes.

Mr. SIMON. Were the pages in that book numbered?

Miss LEVY. I believe so.

Mr. SIMON. When you left in November of 1949 were there any pages missing?

Miss LEVY. None that I know of.

Mr. SIMON. As of 2 weeks ago, pages 40, 41, 88, 89, 122, 123, 134, and 139 of the 1949 cash-disbursement book were missing. Do you have any idea where they were?

Miss LEVY. I am sorry. I couldn't shed any light on that at all.

Mr. SIMON. Were they there when you left in November of 1949?

Miss LEVY. So far as I remember now; yes.

Mr. SIMON. Do you recall whether they were still there when you returned in April of 1950?

Miss LEVY. Well, I had no reason to inspect the books, so I wouldn't know.

Mr. SIMON. In the 1950 cash-disbursement book, pages 76 and 77 are missing. Do you know whether they were there when you left in 1950?

Miss LEVY. I wouldn't know anything about it.

Mr. SIMON. Do you have any knowledge of having removed them yourself?

Miss LEVY. No.

Mr. SIMON. There are books of stubs missing from the bound checkbooks. Did you have bound checkbooks?

Miss LEVY. Just the usual checkbook, check stub.

Mr. SIMON. In 1949, there was a checking account on the Chase National Bank, and check stubs numbered 1987, 1988, and 1989 are missing. Do you have any notion of where they would be?

Miss LEVY. Not the slightest.

Mr. SIMON. Were they removed while you were there?

Miss LEVY. Not that I know of.

Mr. SIMON. In 1950, on the Manufacturers Trust Co., check stubs numbered 2502 to 3002 were missing. That is 500 checks. Do you have any knowledge of that?

Miss LEVY. No; I do not.

Mr. SIMON. Were they destroyed by you while you were there?

Miss LEVY. I never destroyed a record.

Mr. SIMON. Did you keep and retain the bank statements at the end of the month?

Miss LEVY. I did.

Mr. SIMON. When you left, were all of the prior monthly bank statements still there?

Miss LEVY. As far as I know.

Mr. SIMON. And you didn't ever destroy any?

Miss LEVY. No; I did not.

Mr. SIMON. Were you there in June 1950?

Miss LEVY. Yes, on a part-time basis.

Mr. SIMON. There were check-stubs torn out of the bound check-stub book of the Manufacturers Trust Co. in June 1950, bearing these—

The CHAIRMAN. That is Manufacturers Trust Co. check you mean?

Mr. SIMON. That is right, a checkbook from that bank.

The CHAIRMAN. No relation to the Manufacturers Trust Co. in any respect.

Mr. SIMON. No, sir. Just a checkbook they issued. These seven checks were torn out. That is, the stubs Nos. 2060, 2063, 2066, 2068, 2072, 2075, and 2078. Do you have any knowledge of those?

Miss LEVY. None at all.

Mr. SIMON. Were they torn out by you?

Miss LEVY. No, sir.

Mr. SIMON. Do you know whether, or do you know who did tear them out?

Miss LEVY. No; I do not.

Mr. SIMON. Did you have anything to do with preparing the partnership income-tax return?

Miss LEVY. No; I did not.

Mr. SIMON. In the year——

Senator BUSH. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes, Senator Bush.

Senator BUSH. Who did prepare the return when you were there?

Miss LEVY. The accountants.

Senator BUSH. Did they ask you to supply any information for them?

Miss LEVY. They used the books.

Senator BUSH. They didn't ask you to help them?

Miss LEVY. Not directly, no.

Senator BUSH. The books were turned over to you?

Miss LEVY. The books were turned over to the accountants.

Mr. SIMON. In 1950 income-tax returns for this partnership it shows an item under the heading "Miscellaneous Expenses for Clients, \$80,958."

Do you know what that was for?

Miss LEVY. No, I do not. I can't recollect.

Mr. SIMON. Did you have a subsidiary ledger account from which that item was taken?

Miss LEVY. I don't recall that.

Mr. SIMON. Was there a subsidiary ledger account in which were posted miscellaneous expenses for clients?

Miss LEVY. No, not miscellaneous expenses. We had one master account covering expenses.

Mr. SIMON. In the year 1947——

The CHAIRMAN. The journal, of course, would show each entry and whom it was for and whom it was charged to?

Miss LEVY, the journal would show, would it not, each individual item that went to make up the \$80,000?

Miss LEVY. The cash book might show those disbursements.

The CHAIRMAN. It would have to, would it not?

Mr. SIMON. Miss Levy, in 1947 the tax return showed miscellaneous expense for clients of \$420.

The CHAIRMAN. It jumped from \$420 to \$80,000?

Mr. SIMON. 1947 it was \$420. In 1948 it was \$44. In 1949 it was \$1,866. Then it jumped in 1950 to \$80,958. Can you shed any light on why the miscellaneous expenses for clients in the last year that you were there were \$80,958?

Miss LEVY. No, I can't recall that.

Mr. SIMON. Is there any ledger, or subsidiary ledger, from which we could learn the breakdown of what that \$80,000 consisted of?

Miss LEVY. I don't think there was a ledger account for that. I think the cash book alone might give that information.

Mr. SIMON. Do you have any idea how the accountants could have arrived at that figure?

Miss LEVY. No, I do not.

Mr. SIMON. The tax returns also show payments of obligation as guarantor. Do you know whether those are the payments to Schoenfeld?

Miss LEVY. That might be.

Mr. SIMON. You don't know?

Miss LEVY. No, I don't know.

Mr. SIMON. There are on the books, Miss Levy, very substantial numbers of times every year of checks drawn to cash in the amounts like \$10,000, \$15,000, \$25,000—round figures like that.

Do you have any further information as to what those items represented?

Miss LEVY. No, I do not.

Mr. SIMON. They happened quite frequently, didn't they?

Miss LEVY. Well, they happened.

Mr. SIMON. During the time you were there, did you draw a substantial number of such checks yourself?

Miss LEVY. All checks were drawn by me.

Mr. SIMON. Now these checks that I have, \$10,000, \$15,000, \$25,000, drawn to cash, were they made out by you?

Miss LEVY. Most likely, if I was in the office.

Mr. SIMON. How would you happen to make them out?

Miss LEVY. On instructions given to me by Mr. Traub.

Mr. SIMON. Were those written instructions or verbal instructions?

Miss LEVY. Verbal.

Mr. SIMON. Would he tell you what the money was to be used for?

Miss LEVY. Most times.

Mr. SIMON. Give us an example of what he would say.

Miss LEVY. He would ask me to draw a check and I would say "In relation to what," and he would mention the property matter.

Mr. SIMON. We are talking now about these checks to cash.

Miss LEVY. That is correct.

Mr. SIMON. And if he mentioned a property, then on your books would you charge that check to that property?

Miss LEVY. That is correct.

Mr. SIMON. Did it frequently happen that he asked for checks in round sums of money which were to be charged to a particular property?

Miss LEVY. In most cases I think it would be charged to the property involved.

Mr. SIMON. To a particular property?

Miss LEVY. Yes, sir.

Mr. SIMON. Were you ever told who was to get the cash?

Miss LEVY. No, sir.

Mr. SIMON: You merely drew the checks and either you or one of the clerks, or your assistant, got the money and gave the money to Mr. Traub; is that right?

Miss LEVY. The money in most cases would be handed to me. I in turn would hand it to Mr. Traub.

Mr. SIMON. And you did not know who actually received it from him?

Miss LEVY. No, I did not.

Mr. SIMON. You said a moment ago in most cases he would tell you what the cash was to be charged against. That is, what account. By using the phrase "most cases," do you mean there were some cases where he did not tell you who it was to be charged to?

Miss LEVY. There might have been an isolated case where he neglected to tell me at the time and not having the information I would post it to a suspense item, hoping to get the information from him at a later date.

Mr. SIMON. Would you keep it in a suspense account until you did find out who it was to be charged against?

Miss LEVY. Yes, sir.

Mr. SIMON. So while you were there every one of these checks was charged against a specific subsidiary account?

Miss LEVY. That is correct.

Mr. SIMON. Thank you.

The CHAIRMAN. Any further questions?

Senator BUSH. I would like to ask one more question, Mr. Chairman.

Miss LEVY, when you made these entries in the books, were they so clear as to distinguish the purpose for which those payments were made? For instance, on the outgo, were they clearly designating on the books for what purpose that check was drawn?

Miss LEVY. As I said before, the premise or the property involved would be listed on the stub of the checkbook. That was all the information that I required.

Senator BUSH. When they had to do with a particular property or deal, I suppose a project or something of that kind, undoubtedly they were designated for that account?

Miss LEVY. That is correct.

Senator BUSH. Would you say that in all cases these checks which were drawn, these cash payments that were made, were clearly designated on the books as to the purpose for which they were made?

Miss LEVY. The only information I would have is the property or the exchange involved. That would be all the information that I required.

Senator BUSH. Did the people who draw up Mr. Traub's income tax ever come to you and ask you to explain any of these entries?

Miss LEVY. I could give them no further information that what appeared on the stub of the checkbook or in the cash books.

Senator BUSH. Did they come to you at times and say, "We don't understand these entries. Can you help us explain for what this check was drawn?"

Miss LEVY. No. They wouldn't discuss that with me.

Senator BUSH. You handled the checks that came in, too, the income items, did you not?

Miss LEVY. Yes, sir.

Senator BUSH. It was up to you to decide to what account they should be credited?

Miss LEVY. That information would be given to me.

Senator BUSH. Were you able to always distinguish as to whether these income checks were for purposes of a loan to Mr. Traub, or for

purposes of service rendered, for paying for services rendered? Could you clearly distinguish always what that was?

Miss LEVY. No. That information would be given to me.

Senator BUSH. Mr. Traub would give you that information?

Miss LEVY. That is correct.

Senator BUSH. And do you feel that the posting of these income and outgo items was sufficiently clear so that the fellow who drew up the income tax would say with confidence that each item was for a specific purpose; that he would know with confidence that each one of those items was what it was intended to be?

Miss LEVY. I wouldn't question what he knew or did not know. That information he would no doubt get from Mr. Traub.

Senator BUSH. My point is we are not satisfied at all with Mr. Traub's explanations about the income-tax returns, and why he would pay off such tremendous debt within a period of a short time without having paid enormous income taxes, because he said that he got all of the money to pay off the debts from services rendered. Yet his income tax was of such minute proportions that it seemed almost impossible. The two were irreconcilable. That is what I am reaching for.

Have you any information that you think the committee should have, that you would care to give the committee, respecting the question of Mr. Traub's income tax?

Miss LEVY. There isn't anything further that I can add other than what appeared in the books. I worked completely from the information there.

Senator BUSH. Thank you.

The CHAIRMAN. Just 1 question, or maybe 2: You left there in 1950?

Miss LEVY. Yes; 1950.

The CHAIRMAN. In the year 1950 there was \$126,369 drawn to cash. Of course, that money had to get into Mr. Traub's hands somehow.

Do you have any recollection of who it was paid him the \$126,000?

Miss LEVY. I couldn't possibly answer that question.

The CHAIRMAN. You have no information on that whatsoever?

Miss LEVY. Only what appeared in the books.

The CHAIRMAN. Did Mr. Traub collect fees from many, many builders here for specific purposes like an association?

Miss LEVY. There is no question that he collected fees.

The CHAIRMAN. I mean to be spent as an association, or an attorney representing a group of builders and they in turn would each, let us say, give him five or ten thousand dollars to spend for the benefit of all of them or as a group.

Miss LEVY. That I wouldn't know.

The CHAIRMAN. Thank you very much.

Mr. SIMON. Just one more question: In 1948, you were there?

Miss LEVY. Yes, sir.

Mr. SIMON. That year, according to the records we have, there were no payments made to Schönfeld. Is that your understanding?

Miss LEVY. I couldn't remember that now.

Mr. SIMON. But the cash payments that year totaled \$529,428. Do you have any idea what that amount of money was paid out for in cash?

Miss LEVY. I couldn't possibly remember that now.

Mr. SIMON. Do you know what any of it went for?

Miss LEVY. No, sir.

Mr. SIMON. All you know is that you drew those checks and either you or someone else cashed them and you handed the money to Mr. Traub?

Miss LEVY. That is correct.

The CHAIRMAN. Let me ask you one final question: You say you do not know for what purpose the \$529,000 was spent, but you do know as the bookkeeper that the books should show exactly for what purpose it was spent; is that correct?

Miss LEVY. Whatever I have drawn was listed and shown on the books.

The CHAIRMAN. In other words, we should have no trouble discovering from Mr. Traub's books, if and when we get them, as to exactly how that money was spent, is that correct?

Miss LEVY. So I believe.

The CHAIRMAN. Thank you very much.

Senator PAYNE. Mr. Chairman, I would just like to ask, the books were audited, were they, from time to time?

Miss LEVY. Yes; the books were audited.

Senator PAYNE. Were they audited by a C. P. A.?

Miss LEVY. I believe he was a C. P. A.

Senator PAYNE. Were they certified to that effect? A C. P. A. does upon request enclose a statement with the certification that the facts as revealed are true and correct.

Miss LEVY. I never saw the statement.

Senator PAYNE. On the check stubs, Miss Levy, that you mentioned, even though the check itself were drawn to cash, am I correct in understanding that you did make a notation on the stub itself as to the nature of what that expenditure covered?

Miss LEVY. That is correct.

Senator PAYNE. And when that was posted, taken from there over to your cash disbursement sheet and was then posted, were you able to determine whether or not that covered a capital item or an expense item?

Miss LEVY. No; I would only post to the account involved. What the nature of the transaction was, I did not know.

Senator PAYNE. Was there a regular monthly profit-and-loss statement drawn up for the company?

Miss LEVY. There might have been. I never saw it.

Senator PAYNE. You did not draw up any profit-and-loss statement?

Miss LEVY. No.

Senator PAYNE. And no distinction was made then as to the entry against the project as between a capital expense, so-called, and an out-right expense?

Miss LEVY. Not that I know of.

Senator PAYNE. In other words, it was one straight entry from the cash-disbursement sheet to the particular project?

Miss LEVY. That is right.

Senator PAYNE. That is all, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Our next witness will be Lillian Krahan. Will you please come forward, Mrs. Krahan? Will you be sworn, please?

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

**TESTIMONY OF MRS. LILLIAN KRAHAN, FARRAGUT GARDENS,  
BROOKLYN, N. Y.**

Mrs. KRAHAN. I do.

The CHAIRMAN. Thank you.

Will you please give the reporter your full name and address for the record?

Mrs. KRAHAN. My name is Lillian Krahan. I live at 3021 Avenue I, Brooklyn.

Mr. SIMON. Mrs. Krahan, are you the bookkeeper for Dryer & Traub?

Mrs. KRAHAN. Yes; I am.

Mr. SIMON. And how long have you been the bookkeeper there?

Mrs. KRAHAN. I have been there since some time in May 1951.

Mr. SIMON. Miss Levy, who testified a moment ago, said she left in December of 1950. Do you know who was the bookkeeper between December of 1950 and May of 1951?

Mrs. KRAHAN. No, sir; I do not.

Mr. SIMON. Was there a bookkeeper there when you came?

Mrs. KRAHAN. No, sir; there was not.

Mr. SIMON. Is there a subsidiary ledger account to which every item of cash disbursement has been posted during the time you were there?

Mrs. KRAHAN. No, sir.

Mr. SIMON. You have, I take it, during your time drawn a great number of checks to the order of cash?

Mrs. KRAHAN. Yes, sir; I have, on occasions.

Mr. SIMON. Those frequently were in round sums such as \$5,000 or \$10,000 or \$20,000.

Mrs. KRAHAN. Yes, sir.

Mr. SIMON. On whose direction would you draw those checks?

Mrs. KRAHAN. Mr. Traub.

Mr. SIMON. Would you either personally or through someone else arrange to have them cashed at the bank?

Mrs. KRAHAN. Well, on occasions I went. Sometimes maybe a clerk went.

Mr. SIMON. What would Mr. Traub tell you when he asked you to draw such a check?

Mrs. KRAHAN. Well, when he would ask me to draw a check I would ask him what it is for, and he would tell me that he has to make a payment on old indebtedness that he had.

Mr. SIMON. Did he tell you the indebtedness to whom?

Mrs. KRAHAN. Sometimes he did.

Mr. SIMON. Did he always?

Mrs. KRAHAN. No, sir; not always.

Mr. SIMON. When he didn't tell you what indebtedness he was making the payment on, how did you enter the item in the books?

Mrs. KRAHAN. Well, I carried it as an office expense. When I looked in the book to find an account to which to post it, I couldn't find any-

thing and I had to put it in some account, and there was no account I could put it in, and I put it into the office expense.

Mr. SIMON. Are you saying that every time you drew a check to cash, and he didn't tell who to charge it to, that you just charged it to office expense?

Mrs. KRAHAN. Some checks.

Mr. SIMON. Where else did you charge items that he didn't tell you how they should be charged?

Mrs. KRAHAN. Well, sometimes it would be to a client's page.

Mr. SIMON. I take it you wouldn't charge it to a client unless he told you it should be charged to that client, would you?

Mrs. KRAHAN. Yes. In a case like that it would be money coming and going.

Mr. SIMON. I am talking about these checks drawn to cash in round sums, like five or ten or twenty thousand dollars. You testified a moment ago that sometimes he told you that those were to pay an indebtedness to a person he would name.

Mrs. KRAHAN. That is right.

Mr. SIMON. And sometimes he would say it was to pay an indebtedness but he wouldn't tell you to whom?

Mrs. KRAHAN. That is right.

Mr. SIMON. In every such case, did you charge that item to office expense?

Mrs. KRAHAN. Yes, sir.

Mr. SIMON. The income tax returns of the firm for the year 1950 show payments totaling \$80,958 to office expense. Does that include these payments that you are talking of, of payments on some indebtedness, but you didn't know who so you charged them to office expense?

Mrs. KRAHAN. Would you mind telling me what year?

Mr. SIMON. 1950.

Mrs. KRAHAN. I wouldn't know anything about 1950. I didn't come there until 1951.

Mr. SIMON. The tax returns show that for 1947, 1948, 1949, 1951, and 1952 there were very small items charged as miscellaneous expense for clients and \$80,000 charged in that year as miscellaneous expense for clients.

You don't know anything about that?

Mrs. KRAHAN. I don't know anything up to the time that I came there.

Mr. SIMON. Now the same tax returns show that in the years 1948 and 1949 and 1950, the miscellaneous office expense charges ran about five or six thousand dollars a year. In 1951, which was the first year you were there—

Mrs. KRAHAN. Yes, sir.

Mr. SIMON. They jumped to \$39,391, and the next year it jumped to \$106,745. Is your explanation of that that you charged to miscellaneous office expense all these cash payments that you didn't know where else to charge?

Mrs. KRAHAN. Yes, sir.

Mr. SIMON. And you don't know whether they were office expenses or charges to a property, or payments in no way connected with office expense; is that right?

Mrs. KRAHAN. That is right.

Mr. SIMON. Now Miss Levy testified a moment ago that when she was the bookkeeper, there was a subsidiary ledger account for every item to which she ever entered in the cash disbursement book a disbursement; that she was able to put those all on some subsidiary ledger.

Were those ledgers all there during your tenure as bookkeeper?

Mrs. KRAHAN. When I came in 1951, I saw no ledgers, or anything for that time.

Mr. SIMON. Do you know what happened to those ledgers?

Mrs. KRAHAN. No, sir.

Mr. SIMON. Did you ever inquire where the subsidiary ledgers were?

Mrs. KRAHAN. No, sir.

Mr. SIMON. I am not very much of a bookkeeper, but I understand that when you post items in the cash disbursement book, you have to take them off and later post them in a subsidiary ledger. Didn't you ever inquire as to where the subsidiary ledgers were?

The CHAIRMAN. In previous years?

Mrs. KRAHAN. No—

The CHAIRMAN. Did you open up a complete new set of ledgers?

Mrs. KRAHAN. Yes; I had no occasion to refer to any books prior to 1951.

The CHAIRMAN. But the first day you sat down you had entries to make. You made them in the journal, and you had to transfer them to the ledger. Did you mean to say there were no old ledgers there at all, no books at all, that you opened up a complete new set of books?

Mrs. KRAHAN. Yes.

The CHAIRMAN. Do you know why you opened up a complete set of new books? Are you certain now you understand my question?

Mrs. KRAHAN. Well, would you mind repeating it?

The CHAIRMAN. You went to work 1 day. That was the first day you were there.

Mrs. KRAHAN. Yes.

The CHAIRMAN. You were the bookkeeper. Certain transactions came along. You paid out checks, you received money, and you were the bookkeeper. You had certain transactions. Of course, you entered them in your journal and later transferred them to the ledger.

My question is: When they were transferred to the ledger and to the journal, too, I presume, but particularly the ledger, you had a set of books. I presume you must have been doing business with certain people over a period of years, so you carried a ledger on them from year to year. My point is, Did you see those old ledgers, or did you open up complete new ledgers for these people?

Mrs. KRAHAN. I didn't see any old books. While it is true that I came to work there in May, I had to go back and pick up, as of January, and I started a whole brand new set of books.

The CHAIRMAN. That is the question. You are certain of that now?

Mrs. KRAHAN. Yes, sir.

Mr. SIMON. Do you have any idea what happened to the books prior to 1951?

Mrs. KRAHAN. No, sir; I do not.

Mr. SIMON. Now, as we understand it from previous testimony, a lot of these cash payments went to a man named Schoenfeld. Is that your understanding?

Mrs. KRAHAN. Yes, sir.

Mr. SIMON. In the year 1951, the income-tax return shows \$196,315 as payments of obligations as guarantor. Is that the money that went to Schoenfeld?

Mrs. KRAHAN. Well, there is the first I heard of the total of it. I don't know, but I can't say just how much went to him.

Mr. SIMON. Did you keep, during the time you were the bookkeeper, a ledger for the payments to Schoenfeld?

Mrs. KRAHAN. No, sir; I did not.

Mr. SIMON. When Mr. Traub would ask you for, let's say, a \$10,000 check to cash, and you would say "What is that for," and let's say he might say, "It is to Schoenfeld," is that right?

Mrs. KRAHAN. That is right.

Mr. SIMON. Would you enter that on the book as a payment to Schoenfeld?

Mrs. KRAHAN. No, sir.

Mr. SIMON. How would you enter that on the book?

Mrs. KRAHAN. I would just write "to cash, office disbursement" or "office expense."

Mr. SIMON. Did you ever have a ledger for payments to Schoenfeld?

Mrs. KRAHAN. I never saw one.

Mr. SIMON. You never made one?

Mrs. KRAHAN. No, sir.

The CHAIRMAN. The checks to Schoenfeld supposedly were repayment of a loan; were they not?

Mrs. KRAHAN. That is right.

The CHAIRMAN. Why would it go into office expense, and later show up here as a tax deduction? That is, if those are the facts. You want to make certain those are the facts. That is just what you testified to.

Mrs. KRAHAN. Yes; I didn't post it to any Schoenfeld account.

The CHAIRMAN. You are saying that the money was a loan Schoenfeld made?

Mrs. KRAHAN. That is right.

The CHAIRMAN. At least that is the testimony. You are saying these checks you made out for round amounts, five, ten, fifteen, twenty thousand dollars, went into miscellaneous office expense.

Mrs. KRAHAN. Yes, sir.

The CHAIRMAN. And later showed up on the tax return as a deductible tax?

Mrs. KRAHAN. I don't know how it showed up on the tax return. I never saw the tax return.

The CHAIRMAN. I appreciate that. You charged them to miscellaneous office expense?

Mrs. KRAHAN. Yes, sir; I did.

The CHAIRMAN. I said "expense." Was it miscellaneous office expense or miscellaneous office account?

Mrs. KRAHAN. Office expense.

The CHAIRMAN. I see.

Mr. SIMON. Mrs. Krahan, during the time you were the bookkeeper, did you post all of the cash disbursements to some ledger account?

Mrs. KRAHAN. All those except that the ones I told you that I put into the office expense.

Mr. SIMON. You didn't post all of the Schoenfeld payments to office expense; did you?

Mrs. KRAHAN. Yes, sir; I did.

Mr. SIMON. All of the Schoenfeld payments went to office expense?

Mrs. KRAHAN. Yes.

Mr. SIMON. We have been told that something like \$1,200,000 was paid to Schoenfeld. Did you put all of that in office expense?

Mrs. KRAHAN. Well, I don't know how much it is that I did charge to office expense, but the items that I was told to draw, I charged to office expense.

Mr. SIMON. Everything that you were told to pay to Schoenfeld?

Mrs. KRAHAN. Yes, sir.

Mr. SIMON. You also said that you were asked to draw some checks to cash and were not told who they were to be charged to. Did you make any distinction on the books between those checks where you were not told who to charge them, and those checks where you were told that they went for Schoenfeld?

Mrs. KRAHAN. No, sir.

Mr. SIMON. You treated them the same?

Mrs. KRAHAN. Yes, sir.

Mr. SIMON. Whether it was for Schoenfeld or for a purpose that you didn't know about?

Mrs. KRAHAN. That is right.

Mr. SIMON. You treated them exactly alike?

Mrs. KRAHAN. Yes.

Mr. SIMON. In 1951, we understand from the tax returns that \$196,000 was paid to Schoenfeld and the checks to cash drawn on the books totaled \$343,000. That is approximately \$150,000 in addition to the so-called Schoenfeld payments. Do you know where that \$150,000 went?

Mrs. KRAHAN. Well, there are many items that were charged to office expense, we are on a cash basis, and there would be different things in the office.

The CHAIRMAN. What, for example? Give us an example of a few items that would be charged to office expense, because in the tax return here you have all the salaries that were paid to everybody and it looks to me like all the other expenses. Give us an example of a few items that went to make up this \$150,000.

Would it be for traveling expense?

Mrs. KRAHAN. If somebody got married and a gift was given to them it would go to office expense, or items of that nature.

The CHAIRMAN. Like gratuities; someone gets married, and what else?

Mrs. KRAHAN. If someone got married, or Bar-Mitzvah, confirmation, in that nature.

Mr. SIMON. You wouldn't have \$150,000 of those, would you?

Mrs. KRAHAN. Well, I can't think of every item just now. Maybe I will think of them.

The CHAIRMAN. Did you ever make any checks out that were charged to any FHA officials?

Mrs. KRAHAN. No, sir.

Mr. SIMON. You began in May of 1951?

Mrs. KRAHAN. Yes, sir.

Mr. SIMON. You don't remember the exact date?

Mrs. KRAHAN. It was the early part of May.

Mr. SIMON. The total expenses for this time for the year 1951, excluding the salaries and excluding the payments on obligations as guarantor, were less than \$90,000, and yet there is \$343,000 in checks drawn to cash. Can you give us any explanation of that?

Mrs. KRAHAN. Would you mind repeating the question?

Mr. SIMON. Yes. The total expenses of the firm in the year 1951, excluding salaries, and excluding these payments on obligations as guarantor, were less than \$90,000. The checks drawn to cash in that year were \$343,000. Can you give us any explanation of how that might have happened?

Mrs. KRAHAN. Well, the only checks I know that I had charged to office expense—but I can't think of the differences in the sums.

Mr. SIMON. Mrs. Krahan, there were checks drawn to cash in the year 1951 for odd sums of money. For example, I have one here that is drawn to cash for \$3,815.64, and we have been told that that was probably the amount of money required on a closing of a real estate deal.

Would you charge that to office expense or would you charge it to the client whose real estate deal was being closed?

Mrs. KRAHAN. I can't remember that item just now. I would have to see it to know.

Mr. SIMON. In your mind is there any distinction between these checks to cash for round numbers like five or ten thousand dollars, and checks to cash for an odd amount of odd dollars, with pennies on the end? Is there any distinction of those in your mind?

Mrs. KRAHAN. I don't know of any now.

Mr. SIMON. I am sorry?

Mrs. KRAHAN. I don't know of any just now.

Mr. SIMON. You didn't treat them any differently?

Mrs. KRAHAN. Well, if it was pertaining to a specific matter.

Mr. SIMON. Did you ever balance your books and take a trial balance?

Mrs. KRAHAN. No, sir, I never did.

Mr. SIMON. In the three and a half years you have been there, you have never taken a trial balance of your books?

Mrs. KRAHAN. No.

Mr. SIMON. As far as you know, have any auditors ever looked at the books in the time you have been there?

Mrs. KRAHAN. They would be audited periodically.

Mr. SIMON. They were audited?

Mrs. KRAHAN. Yes.

Mr. SIMON. Did you ever see an audit statement from the auditors?

Mrs. KRAHAN. No, sir, I never did.

Mr. SIMON. Do you have the bank statements of this firm, the monthly bank statements?

Mrs. KRAHAN. No, sir.

Mr. SIMON. You don't?

Mrs. KRAHAN. No.

Mr. SIMON. Do you know what happened to them?

Mrs. KRAHAN. Well, as I was through with them, I threw them away.

Mr. SIMON. You threw them away?

Mrs. KRAHAN. Yes.

Mr. SIMON. Each month?

Mrs. KRAHAN. Yes, sir.

The CHAIRMAN. Wait a minute. You did what?

Mrs. KRAHAN. I threw them away.

The CHAIRMAN. Threw the monthly bank statements away?

Mrs. KRAHAN. Yes.

The CHAIRMAN. You did?

Senator PAYNE. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Payne.

Senator PAYNE. Mrs. Krahan, may I ask you: Were you employed as a bookkeeper prior to the time you went with Mr. Traub?

Mrs. KRAHAN. Yes.

Senator PAYNE. How many years had you worked?

Mrs. KRAHAN. A number of years.

Senator PAYNE. Just roughly.

Mrs. KRAHAN. About 12 or 13 years.

Senator PAYNE. Had you studied bookkeeping before you first took employment?

Mrs. KRAHAN. Yes.

Senator PAYNE. Did you ever make a reconciliation of your check book?

Mrs. KRAHAN. Yes.

Senator PAYNE. You did. Was that before or after you threw your bank statement away?

Mrs. KRAHAN. Before.

The CHAIRMAN. Did someone order you to throw these bank statements away?

Mrs. KRAHAN. No, sir.

The CHAIRMAN. You just did it of your own volition?

Mrs. KRAHAN. Yes, sir.

The CHAIRMAN. Did you ask anyone if you should throw them away?

Mrs. KRAHAN. No, sir.

Senator PAYNE. Mrs. Krahan, when you drew a check to pay for the telephone in the office, what did you charge that to?

Mrs. KRAHAN. To telephone.

Senator PAYNE. What did you charge when you bought stationery for the office.

Mrs. KRAHAN. Stationery.

Senator PAYNE. And what about when you paid the payroll of the office?

Mrs. KRAHAN. Payroll.

Senator PAYNE. There must have been a subsidiary ledger then, wasn't there?

Mrs. KRAHAN. Yes, sir.

Senator PAYNE. In other words, you do post from cash disbursements to a subsidiary ledger with the breakdown of the various classified expenses?

Mrs. KRAHAN. Yes, sir.

Senator PAYNE. I thought I understood previously you said there was no subsidiary ledger.

Mrs. KRAHAN. No, sir, I did not say that. I said there was a subsidiary ledger.

Senator PAYNE. I am sorry if I misunderstood.

The CHAIRMAN. She testified that when she arrived there were no old ledgers. She opened up a complete new set of books, complete new set of ledgers; is that right?

Mrs. KRAHAN. That is right.

The CHAIRMAN. I was a little confused there, too, Senator Payne. Do I understand you to say you posted every disbursement to some subsidiary ledger account?

Mrs. KRAHAN. Yes; except those that were in the general office expense column.

The CHAIRMAN. Then Mr. Traub's books should show exactly where each dollar of these cash checks and big sums went to; is that right?

Mrs. KRAHAN. Yes.

Mr. SIMON. Were the Schoenfeld payments posted to some subsidiary ledger?

Mrs. KRAHAN. No, sir; they were not.

Mr. SIMON. They were not posted anywhere?

Mrs. KRAHAN. No, sir.

Mr. SIMON. Are there any other payments that weren't posted anywhere?

Mrs. KRAHAN. I don't know of any.

Mr. SIMON. How could you balance your books if you had a large group of checks, such as Schoenfeld checks, not posted anywhere?

Mrs. KRAHAN. Well, I said before that I put them in the office-expense column, and that balanced it.

Mr. SIMON. I am not sure I understand you. At one time you said that the Schoenfeld checks went into the office expense.

Mrs. KRAHAN. Yes.

Mr. SIMON. And another time you didn't post the Schoengeld expenses?

Mrs. KRAHAN. When you have an office expense you just post the entire sum, but you don't have any pages to correspond with it.

Mr. SIMON. If during the year there were a total of 200 checks to Schoenfeld, totaling \$200,000, will your office expense ledger have those 200 entries?

Mrs. KRAHAN. Yes. Well, there wouldn't be 200 items; there would be just 1 item for each month.

Mr. SIMON. I see. Then at the end of each month you would post office expense, X dollars?

Mrs. KRAHAN. That is right.

Mr. SIMON. And you wouldn't show what it was for?

Mrs. KRAHAN. No, sir.

Mr. SIMON. Then at the end of the year how would you know whether that office expense was for stationery or for telephone or for Schoenfeld?

Mrs. KRAHAN. I said before that when I paid a telephone bill, it was charged to telephone.

The CHAIRMAN. How would you know when you got Mr. Schoenfeld paid off if you didn't have a ledger for him?

Mrs. KRAHAN. I wouldn't know.

The CHAIRMAN. You didn't know?

Mrs. KRAHAN. No, sir.

The CHAIRMAN. You testified—you evidently were going on paying him indefinitely?

Mrs. KRAHAN. Every time a payment had to be made to him I was asked.

The CHAIRMAN. If you charged it to office expense, how did you know when you got him paid off? I don't know how much you owed him or how much you were supposed to pay him, but you would have no record, where you could go to one particular point and find out how much you paid him, did you?

Mrs. KRAHAN. I didn't know how much it was that Mr. Traub owed him, but I knew he owed him a lot of money.

The CHAIRMAN. But you wouldn't know when you had him paid in full, would you?

Mrs. KRAHAN. No, sir; I wouldn't know.

The CHAIRMAN. The books wouldn't show either, would they?

Mrs. KRAHAN. No.

Mr. SIMON. Mrs. Krahan, we are interested in who got some of these items of round sums of money like five thousand or ten thousand dollars that was drawn to cash.

Are you telling us now there is no way the books will reflect who received that money?

Mrs. KRAHAN. Not that I know of.

Mr. SIMON. So far as you know you merely put it in the book and at the end of the month you added up the total of such unknown payments or Schoenfeld payments, and you put the total under office expense; is that right?

Mrs. KRAHAN. Yes.

Mr. SIMON. And our examination of those books, you say, will never disclose either who got the money, or who it was charged to, other than the general charge to office expense?

Mrs. KRAHAN. Yes.

The CHAIRMAN. We likewise know that this large sum was taken as a tax deduction, too, which is very interesting. As you have already testified, Schoenfeld's payments went in there. Supposedly that was repayment of a loan.

Mrs. KRAHAN. Yes, sir.

The CHAIRMAN. Repayment of a loan is not a tax deduction, is it?

Mrs. KRAHAN. I don't know anything about taxes.

The CHAIRMAN. It sounds reasonable to you that it would not be, doesn't it?

Mrs. KRAHAN. I really don't know.

Mr. SIMON. There are a few specific questions I would like to ask you.

Miss Levy testified that when she left all of the bank statements for the period up to the time she was there were still there.

Do you know if they are still there now?

Mrs. KRAHAN. I have never seen any.

Mr. SIMON. You have never seen them?

Mrs. KRAHAN. No.

Mr. SIMON. Do you know what happened to them?

Mrs. KRAHAN. No, sir; I do not.

Mr. SIMON. Is there a cash disbursement book for the year 1949?

Mrs. KRAHAN. I really don't know. I would have to look at all the books to see what years are there.

Mr. SIMON. There are eight pages missing out of the cash-disbursement book for the year 1949. Do you know where they are?

Mrs. KRAHAN. I don't know anything about 1949.

Mr. SIMON. There are two pages missing out of the cash-disbursement book for the year 1950. Do you know anything about them?

Mrs. KRAHAN. No, sir; I know nothing about that.

Mr. SIMON. There are some checks missing—that is, check stubs in the checkbook missing, the Chase National Bank book for the year 1949, checks Nos. 1987, 1988, and 1989 are missing.

Do you know anything about them?

Mrs. KRAHAN. No, sir.

Mr. SIMON. On the Manufacturers Trust Co. account, and the firm does have an account there, doesn't it?

Mrs. KRAHAN. Yes.

Mr. SIMON. It still does?

Mrs. KRAHAN. Yes.

Mr. SIMON. In the year 1950 there are 500 checks missing, from 2502 to 3002.

Do you know anything about those?

Mr. KRAHAN. No, sir.

Mr. SIMON. In the year 1951 there are about 500 checks missing, from 4002 to 4500. Do you know anything about those?

Mrs. KRAHAN. No; I don't.

Mr. SIMON. In the year 1952, there were three check stubs missing, Nos. 6274, 6275, and 6276, in the year 1952. Do you know anything about those three check stubs?

Mrs. KRAHAN. No; I don't.

Mr. SIMON. Did you keep the checkbook in the year 1952?

Mrs. KRAHAN. Yes.

Mr. SIMON. Do you know why those three should be missing?

Mrs. KRAHAN. No; I don't.

Mr. SIMON. There is a check stub book of the Manufacturers Trust Co. for 1950 in which nine stubs have been torn out. Do you know anything about those check stubs?

Mrs. KRAHAN. No; I don't.

Mr. SIMON. Miss Levy testified that during the time she was bookkeeper there she had a subsidiary ledger account for each piece of property in which the firm represented the sponsors, or the owners.

Did you have such a subsidiary ledger?

Mrs. KRAHAN. Yes.

Mr. SIMON. For each piece of property?

Mrs. KRAHAN. Wherever possible.

Mr. SIMON. What do you mean, "wherever possible"?

Mrs. KRAHAN. Sometimes there would be 2 pieces of property, or a connected matter and I would only have 1 sheet for it.

Mr. SIMON. Were any of these cash payments ever charged to those properties?

Mrs. KRAHAN. Well, some were. If we had to draw checks for a disbursement, a recording or some such thing, it was charged there.

Mr. SIMON. Mrs. Krahan, in your books, your journal books, you have a column headed "Clients' expense," don't you?

Mrs. KRAHAN. Yes.

Mr. SIMON. That is your journal?

Mrs. KRAHAN. Yes.

Mr. SIMON. And we find there are a number of instances where a check drawn to the order of cash will be posted in your journal under the column headed "Clients' expense"; is that right?

Mrs. KRAHAN. It could be.

Mr. SIMON. In those cases, was that check drawn for some client's expense?

Mrs. KRAHAN. It could be.

The CHAIRMAN. Specific client?

Mrs. KRAHAN. I would have to see that.

The CHAIRMAN. Would the records show the name of the client and the specific purpose? Maybe we can clear it up. Did Mr. Traub represent a group of builders that would contribute X amount of money for him to use for lobbying purposes, and other purposes?

Mrs. KRAHAN. Not that I know of, sir.

The CHAIRMAN. He would not?

Mrs. KRAHAN. No, sir.

The CHAIRMAN. Did he ever solicit funds or did builders in New York ever pay him X amount of money to fight this investigation?

Mrs. KRAHAN. No, sir; not that I know of.

Mr. SIMON. There are in these books—and you probably know this better than I do—but there are in these books a large number of items drawn to cash and posted in your journal, under the heading "Clients' expense."

Now, how can we find from the books what client that item was charged to?

Mrs. KRAHAN. Well, I don't know how you could.

Senator PAYNE. Mrs. Krahan, didn't you run an accounts receivable ledger?

Mrs. KRAHAN. Well, we called the client's ledger.

Senator PAYNE. That was broken down by the names of the individuals?

Mr. KRAHAN. Yes, sir.

Senator PAYNE. When a disbursement was made by a firm for a client's expense, wasn't that posted then to that ledger so that it showed an expense incurred on the account of Mr. X or Z or whatever the name might be?

Mrs. KRAHAN. Well—

The CHAIRMAN. For example, when a client would give you, let's say \$10,000 for some specific purpose—I don't know what the purpose was—and you would spend eight thousand of it for that specific purpose, wouldn't the ledger show ten thousand received and eight thousand spent?

Mrs. KRAHAN. I guess it would.

The CHAIRMAN. Then wouldn't Mr. Traub's books show all these transactions we are talking about, all these checks?

Mrs. KRAHAN. Well, some would.

The CHAIRMAN. Some will and some will not?

Mrs. KRAHAN. Yes.

The CHAIRMAN. Why won't it all show up?

Mrs. KRAHAN. What I mean, they all would show up in different categories.

Mr. SIMON. Let me ask you this: Have you ever heard of a man named Alfred L. Kaskell?

Mrs. KRAHAN. Yes, sir; I did.

Mr. SIMON. In the 5-year period from the middle of 1949 through 1953, we have taken off our books checks totaling \$1,078,198 that in some way refer to Kaskell.

Do you have a ledger account that will show a subsidiary ledger for Kaskell, that will show all the charges and credits against him?

Mrs. KRAHAN. Yes, sir.

Mr. SIMON. You do have that?

Mrs. KRAHAN. Yes, sir.

Mr. SIMON. What book is that in?

Mrs. KRAHAN. That is in our client's book.

Mr. SIMON. Will there be one sheet for Kaskell or a number of sheets for Kaskell?

Mrs. KRAHAN. A number of sheets.

Mr. SIMON. For every different property he had?

Mrs. KRAHAN. Yes.

Mr. SIMON. Will all of these items which, if our mathematics is right, total \$1 million, taken out of your checkbooks, will they all appear on one of those Kaskell ledger accounts?

Mrs. KRAHAN. Yes. Some of those will and some will appear in cases where we would make an advance for Mr. Kaskell, and in 2 or 3 days we would get that money back, and that would be in an exchange.

Mr. SIMON. Will that appear on Mr. Kaskell's account?

Mrs. KRAHAN. It would appear in the general ledger exchange items.

Mr. SIMON. Will it appear in Mr. Kaskell's account, too?

Mrs. KRAHAN. No, sir.

Mr. SIMON. It won't?

Mrs. KRAHAN. No.

Mr. SIMON. So that the Kaskell account is not complete in that it doesn't include these exchanges back and forth; is that right?

Mrs. KRAHAN. It would be complete, if you took the exchanges, plus the pages for the different properties.

Mr. SIMON. What I am trying to find out is—let's assume that on a given day, Mr. Traub gave \$5,000 to Mr. X for the account of a given property, and 3 days later the owners of that property gave him back a check for \$5,000.

Will there appear on the account of that property owner an item showing the \$5,000 paid and 3 days later that he got the five thousand back from the proper owner?

Mrs. KRAHAN. Yes; it would appear.

Mr. SIMON. It will appear on the ledger?

Mrs. KRAHAN. Yes.

Mr. SIMON. For that particular client?

Mrs. KRAHAN. Yes.

Mr. SIMON. Not merely on the exchange ledger?

Mrs. KRAHAN. In the exchange ledger, or sometimes on a particular property.

Mr. SIMON. That is what I am trying to find out. Will it always appear on the property ledger or will it generally appear only in the exchange ledger?

Mrs. KRAHAN. In both places.

Mr. SIMON. Do you have a ledger sheet for either Vandever Estates or Farragut Gardens or Morris Kavy, all of which is in the same property but it might appear in any of those three names?

Mrs. KRAHAN. Yes.

Mr. SIMON. There have been several thousands of dollars going in and out of the firm under that name. Is there a ledger sheet that will show the receipts and disbursements for that Farragut project?

Mrs. KRAHAN. No, sir; because we were on a cash basis and we only record the money received, and only the disbursements you could check and the fees would appear in the fees column.

Mr. SIMON. Supposing for Kavy's project, Mr. Traub paid \$5,000 in cash to Mr. X today, and a week later Mr. Kavy reimbursed him that \$5,000. Would both those entries appear on the Kavy ledger?

Mrs. KRAHAN. Sometimes.

The CHAIRMAN. Sometimes?

Mrs. KRAHAN. Yes.

Mr. SIMON. And sometimes not?

Mrs. KRAHAN. And sometimes it would appear in the exchange.

Mr. SIMON. What is the distinction of why it would sometimes appear in the Kavy ledger and sometimes not?

Mrs. KRAHAN. Well, if we made a disbursement or advance, we would record it, but if we made a disbursement and the money was a temporary advance for 2 or 3 days, then I would put it in the exchange.

Mr. SIMON. I see, so that the place where you put it depended upon how long it was advanced for; is that right?

Mrs. KRAHAN. Yes.

Mr. SIMON. If it was a short-term advance, you would put it in one place. If it was a long-term advance it would go in his account; is that right?

Mrs. KRAHAN. That is right.

Mr. SIMON. How would you know whether it was a short- or long-term advance?

Mrs. KRAHAN. I would be told.

Mr. SIMON. By whom?

Mrs. KRAHAN. By Mr. Traub.

Mr. SIMON. Would he tell you, "This is going to get repaid in a week," or would he say, "Put this in the exchange account?"

Mrs. KRAHAN. No, sir. He would say, "We are making this advance and in 2 days if it isn't paid, let me know."

Mr. SIMON. Then you put it in the exchange account?

Mrs. KRAHAN. Yes.

Mr. SIMON. Did that frequently happen on items which were checks drawn to cash?

Mrs. KRAHAN. I really don't remember.

Mr. SIMON. Do you know that it did happen on some items drawn to cash?

Mrs. KRAHAN. Yes, some.

Mr. SIMON. In round figures?

Mrs. KRAHAN. Yes.

Mr. SIMON. How would you know when you were asked to draw a check to cash for \$5,000, and gave Mr. Traub the \$5,000 in cash, how would you know whether that was a payment to Schoenfeld that was to go in office expense or advance for Kavy that was to be paid in a week, or an advance to Kavy that wouldn't be paid for 3 months?

Mrs. KRAHAN. Well, when I would be asked to draw the check, I would ask and I would be told at that time.

Mr. SIMON. Were you always told what the check was for?

Mrs. KRAHAN. Not always.

Mr. SIMON. What do you mean you weren't always told what the check was for?

Mrs. KRAHAN. I would just charge it to office expense.

Mr. SIMON. Thank you.

The CHAIRMAN. Thank you very much.

Our next witness will be Mr. Abraham Traub.

Mr. WEISMAN. May it please you, Senator Capehart, and the other Senators, I respectfully ask that no pictures be taken in advance of the testimony.

The CHAIRMAN. The policy of this committee is to observe the wishes of the witnesses, and the wishes in this respect is that there be no photographs taken of his presence while testifying and does that apply to the television likewise?

Mr. WEISMAN. That applies to television likewise.

The CHAIRMAN. The photographers and television, if here, will comply. You can take the voice but not the picture. I am only talking about when the witness is on the witness chair. We have no control over what you do when he is not on the witness chair.

Mr. WEISMAN. I would respectfully ask that cameramen be requested not to take any photographs until we are finished testifying. After that I will see they get adequate pictures at the close of the testimony.

The CHAIRMAN. If the photographers will please observe their wishes.

Will you please come forward, Mr. Traub.

Mr. TRAUB. Would you turn the lights off, Senator?

The CHAIRMAN. When he starts testifying we will turn them off.

Mr. WEISMAN. I would like a ruling from the Senator. I respectfully ask these lights, which I cannot stand, and which will upset my client, be turned off. We are not here at a circus. This is a serious legislative inquiry.

The CHAIRMAN. I think we had better comply with the wishes of the witness. I see nothing to be gained in having them on while he sits there. It is just a matter of a second.

We want to be fair with everybody. It is really dark in here now.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF ABRAHAM TRAUB, FARRAGUT GARDENS, BROOKLYN, N. Y., ACCOMPANIED BY MILTON WEISMAN, COUNSEL—  
Resumed**

Mr. TRAUB. Yes, I do.

The CHAIRMAN. Thank you, sir.

Will you please be seated and give the reporter your full name and address?

Mr. TRAUB. Abraham Traub, 1620 Avenue I, Brooklyn, N. Y.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Traub, you are an attorney?

Mr. TRAUB. I am.

Mr. SIMON. You have represented a substantial number of clients who received commitments from the Federal Housing Administration under section 608 of the Federal Housing Act?

Mr. TRAUB. Of course.

Mr. SIMON. Do you know the total amount of mortgages that FHA has insured for clients of yours on applications that you processed at FHA?

Mr. TRAUB. I do not.

Mr. SIMON. It is well over a hundred million dollars; is it not?

Mr. TRAUB. I have no idea. I don't think it reaches that amount. It may, I mean.

Mr. SIMON. I have a list here of about 70 projects which I am told is not a complete list in that there are others that we don't have, but the list of 70 projects that we have totals \$106,489.

Mr. TRAUB. I say it may have. I have represented quite a few FHA projects.

Mr. SIMON. Is there any doubt in your mind? I will be glad to read the list to you.

Mr. TRAUB. No. There is no doubt in my mind. I don't know the amount. It is possible it is a hundred million dollars.

The CHAIRMAN. Without objection, we will place that list in the record.

(The information referred to follows:)

LIST OF FHA PROJECTS FURNISHED BY ABRAHAM TRAUB AS PROJECTS IN WHICH HIS FIRM APPEARED AS ATTORNEYS

| <i>Name of project</i>                       | <i>Amount of mortgage</i> |
|--|---------------------------|
| Davenport Arms-----                          | \$1, 733, 400             |
| Chartone Garden Apartments-----              | 736, 100                  |
| Lizel Holding Co.-----                       | 566, 000                  |
| Forest Drive Apartments-----                 | 1, 388, 900               |
| Austin Street Construction Corp-----         | 730, 000                  |
| Fieldstone Gardens (Netherland Gardens)----- | 4, 116, 000               |
| Sundawn Gardens-----                         | 1, 496, 600               |
| Congress Gardens-----                        | 975, 200                  |
| Ridge Terrace-----                           | 1, 116, 500               |
| Maplewood Housing-----                       |                           |
| Shore View Gardens-----                      | 589, 000                  |
| Parkville Gardens-----                       | 743, 500                  |
| The Sheridan-----                            | 527, 700                  |
| The Fulton-----                              | 1, 016, 900               |
| American Park, section No. 1-----            | 1, 267, 100               |
| Colony Terrace-----                          | 1, 189, 400               |
| The Roosevelt-----                           | 640, 000                  |
| Montgomery House-----                        | 665, 000                  |
| The Jamestown-----                           | 557, 600                  |
| Olinville Terrace-----                       | 598, 100                  |
| Bay Parkway Apartments-----                  | 565, 100                  |
| First Woodhaven Housing-----                 | 3, 587, 900               |
| Second Woodhaven Housing-----                | 2, 647, 000               |
| Third Woodhaven Housing-----                 | 1, 747, 900               |
| The Hamilton-----                            | 510, 300                  |
| Lana Gardens-----                            | 551, 800                  |
| Lincoln Cooperative-----                     | 2, 683, 600               |
| Regent Gardens-----                          | 620, 100                  |
| Bay Shore Gardens-----                       | 911, 500                  |
| Pelway Gardens-----                          | 1, 424, 600               |
| Albert Apartments-----                       | 370, 300                  |
| Oliver Gardens-----                          | 2, 001, 500               |

LIST OF FHA PROJECTS FURNISHED BY ABRAHAM TRAUB AS PROJECTS IN WHICH HIS FIRM APPEARED AS ATTORNEYS—Continued

| <i>Name of project</i>                  | <i>Amount of mortgage</i> |
|---|---------------------------|
| Aero Gardens                            | \$2,467,300               |
| Boulevard Gardens                       | 2,467,300                 |
| Anita Apartments                        | 3,904,800                 |
| Howard Gardens                          | 4,112,600                 |
| Mansfield Gardens                       | 3,047,300                 |
| Quality Gardens                         | 2,358,500                 |
| Cedar Gardens                           | 1,322,900                 |
| Forest Hills Village                    |                           |
| Forest Hill Gardens                     |                           |
| Greystone Gardens                       | 1,106,500                 |
| Barnes Gardens                          | 835,100                   |
| Lanson Gardens                          | 1,160,000                 |
| Roder Gardens                           | 748,400                   |
| Ruskin Gardens                          | 2,098,200                 |
| Farragut Gardens, No. 1, Inc            |                           |
| Farragut Gardens, No. 2, Inc            |                           |
| Farragut Gardens, No. 3, Inc            |                           |
| Farragut Gardens, No. 4, Inc            |                           |
| Farragut Gardens, No. 5, Inc            |                           |
|   | 21,719,300                |
| Queens College Gardens                  | 3,348,600                 |
| Grand Central Apartments, section I     | 1,208,300                 |
| Grand Central Apartments, section II    | 2,160,600                 |
| Woodcliff Gardens, Inc., section I      |                           |
| Woodcliff Gardens, Inc., section II     |                           |
| Larchmont Gardens                       | 2,238,000                 |
| Dara Gardens                            | 4,657,900                 |
| The Normandie                           |                           |
| Briarwood Gardens Apartments, section 4 | 991,000                   |
| Blossom Gardens                         | 1,628,600                 |
| Briarwood Gardens, section 1            | 1,455,000                 |
| Briarwood Gardens, section 2            | 575,000                   |
| Troy Gardens                            | 856,000                   |
| Rego Terrace                            | 470,600                   |
| Rego Gardens                            | 471,000                   |
| Total                                   | 106,489,000               |

Mr. SIMON. Included in these projects is the \$21 million—\$21,719,000 of FHA commitment on Farragut Gardens?

Mr. TRAUB. I assume so.

Mr. SIMON. You represented Mr. Kavy in the Farragut Gardens project?

Mr. TRAUB. I did.

Mr. SIMON. As far as you know, is he still physically unable to appear as a witness here?

Mr. TRAUB. As far as I know, he is.

Mr. SIMON. And you also represented Kaskell in getting some \$30 million worth of FHA commitments?

Mr. TRAUB. I represented Kaskell in get—not in getting his commitments. I represented him as an attorney in closing the commitments. I did not represent anybody in getting commitments, Mr. Simon.

Mr. SIMON. I wasn't trying to be technical. You represented Kavy and Kaskell in connection with their FHA loans?

Mr. TRAUB. Yes, sir.

Mr. SIMON. And Kavy's total was about \$25 million?

Mr. TRAUB. Yes.

Mr. SIMON. And Kaskell was over \$30 million?

Mr. TRAUB. I haven't got the amount. It is possible it is over \$30 million.

Mr. SIMON. Now, as you know, we have tried to analyze your books. This morning, Miss Levy testified that when she left in 1950, all of the bank statements, the monthly bank statements for prior years were there, and Mrs. Krahan testified that they were not there when she came. Do you know what happened to those bank statements?

Mr. TRAUB. I do not except, Mr. Simon, in 1949, I reorganized the office, changed the entire method of doing business, changed the entire system that I had been employing until 1949, and I do not know what happened to those books and records. I never saw them.

Mr. SIMON. Was that reorganization early in 1949?

Mr. TRAUB. It took place from about February 1949 to some time the latter part of 1949, October or November.

Mr. SIMON. You bank at the Manufacturers Trust Co., do you?

Mr. TRAUB. I do.

Mr. SIMON. In June 1950 seven check stubs were torn out of the checkbook of the Manufacturers Trust Co., numbered 2060, 2063, 2066, 2069, 2072, 2075 and 2078.

Do you know why those check stubs were torn out or who tore them out?

Mr. TRAUB. I do not.

Mr. SIMON. Do you know that they were torn out?

Mr. TRAUB. I do not.

Mr. SIMON. Have you ever examined that checkbook?

Mr. TRAUB. Recently?

Mr. SIMON. At any time.

Mr. TRAUB. I may have examined it in 1949.

Mr. SIMON. This is in June of 1950.

Mr. TRAUB. I may have examined it in 1950.

Mr. SIMON. Do you know any reason why those check stubs should be torn out?

Mr. TRAUB. I do not.

Mr. SIMON. In the same Manufacturers Trust Co. account, in 1953, checks numbered 6274, 6275, and 6276, those stubs are missing. Do you know why they are missing?

Mr. TRAUB. I do not.

Mr. SIMON. There are stubs missing for each year—I will be glad to read the numbers here if it makes any difference, but can you tell us where they went and who took them, or why?

Mr. TRAUB. I do not know.

Mr. SIMON. Miss Levy testified this morning that she had a subsidiary ledger account for each property and that each item of disbursement that she made was posted on one of those ledgers. Do you know what happened to those ledgers?

Mr. TRAUB. I do not know.

Mr. SIMON. Do you know who could have removed them from your office?

Mr. TRAUB. I don't.

The CHAIRMAN. Have they been removed?

Mr. TRAUB. I don't know.

Mr. SIMON. Are you now occupying the same offices that you occupied in 1947, 1948, 1949, and 1950?

Mr. TRAUB. No.

Mr. SIMON. How long have you been in your present offices?

Mr. TRAUB. Since 1949.

Mr. SIMON. Since 1949?

Mr. TRAUB. Yes.

Mr. SIMON. When did you move?

Mr. TRAUB. We rearranged the offices and cut down a bit. It was February 1949.

Mr. SIMON. Is what you are telling us that you now have less space but it is in the same space?

Mr. TRAUB. Yes.

Mr. SIMON. You haven't moved, then?

Mr. TRAUB. No; we haven't moved.

Mr. SIMON. Did you throw out any of your books and records at the time you gave up some of your space?

Mr. TRAUB. I personally didn't.

Mr. SIMON. Was there anybody else who had authority to throw out books and records?

Mr. TRAUB. No.

Mr. SIMON. Then can you tell us what happened to the books and records that Miss Levy said were there when she left that are not there now?

Mr. TRAUB. I cannot.

Mr. SIMON. You cannot?

Mr. TRAUB. No.

Mr. SIMON. Incidentally, she didn't leave until November 1949, which would be some 7 months after you rearranged your office space.

Mr. TRAUB. No. I told you my rearranging or reorganization took until the latter part of 1949.

Mr. SIMON. Had it been completed by the time she left?

Mr. TRAUB. Yes.

Mr. SIMON. She says the books were there when she left.

Mr. TRAUB. I don't know what happened to them.

Mr. SIMON. You don't know what happened to them?

Mr. TRAUB. No.

Mr. SIMON. There are eight pages missing out of your cash disbursement journal for the year 1949. Do you know what happened to them?

Mr. TRAUB. The first I heard of missing pages was about 2 weeks ago, over in Washington, when Mr. Hogue asked me that question.

Mr. SIMON. Have you since then made any effort to learn what happened to those missing pages?

Mr. TRAUB. I asked Miss Krahan if she knew what happened to the missing pages, she told me she didn't.

Mr. SIMON. Did you do anything else to find out what happened to them?

Mr. TRAUB. There was nothing else that could be done.

Mr. SIMON. There were two missing pages in your cash disbursement book for the year 1950. Have you done anything to find those pages?

Mr. TRAUB. I can only give you the same answer. When I spoke to her about all the missing pages Mr. Hogue asked me on.

Mr. SIMON. You don't know what happened to those missing pages?

Mr. TRAUB. I do not.

Mr. SIMON. Were you here this morning when Mrs. Krahan testified?

Mr. TRAUB. I was.

Mr. SIMON. Did you hear her testimony?

Mr. TRAUB. I did.

Mr. SIMON. She said that during the period of time she was there she charged all of the moneys you paid to Schoenfeld to office expense. Is that your understanding of how your books were kept?

Mr. TRAUB. I associated myself in the partnership with 3 other attorneys, and there is a written agreement signed, I think it was the latter part of 1950 or the early part of 1951, by the 4 of us, in which the old indebtedness was assumed as an office expense, and all payments that I made on account of the old indebtedness, including Schoenfeld, were charged to office expense.

Mr. SIMON. Well now, at the time you created this partnership, what was the date of it again?

Mr. TRAUB. I don't know the exact date. I think it was the later part of 1950 or early part of 1951.

Mr. SIMON. At that time, how much did you owe Schoenfeld?

Mr. TRAUB. I had various guaranties. I owed him about one million two, one million three hundred thousand.

Mr. SIMON. What time is this now?

Mr. TRAUB. In February 1949.

Mr. SIMON. In February of 1949?

Mr. TRAUB. That is correct.

Mr. SIMON. But at the time you made this partnership agreement where the partners assumed that indebtedness, how much was owing?

Mr. TRAUB. Well, I can't give you the exact figure that was owing at that time.

Mr. SIMON. Did you keep a ledger to record the amount of money you owed Schoenfeld and the payments to him?

Mr. TRAUB. Not a ledger. It was in the written agreement, the amount of money I owed him.

The CHAIRMAN. You made the payments to him, did you? Do you have a ledger showing you owed him \$1,200,000 and as you made payments you deducted it?

Mr. TRAUB. That isn't the fact, Senator. The fact is since you want to go into something that does not pertain to this investigation, I will give you the facts. There was a written agreement I made with Mr. Schoenfeld which set forth how he was to be paid. I personally didn't pay him the entire \$1,200,000. There were considerable assets that had been tied up under these guaranties. Have we got that written agreement here?

Mr. WEISMAN. Go ahead. I will have it for you.

Mr. TRAUB. I personally never paid him nowheres near \$1,300,000 or \$1,600,000. At no time in executive session did anybody ask me about my old problems. I think if they had and I would have been able to sit down with Mr. Simon and Mr. Hogue and give the details there wouldn't be all these innuendoes and inferences.

The CHAIRMAN. I know of no innuendoes; all we want are the facts.

Mr. TRAUB. I have a written agreement signed by Mr. Schoenfeld before he died.

The CHAIRMAN. Let's have it.

Mr. WEISMAN. I haven't got it here. I will reproduce it and give you a photostatic copy. I didn't know it was going to be called for.

Mr. SIMON. How much did you pay Schoenfeld?

Mr. TRAUB. I, personally?

Mr. SIMON. You personally or your law firm.

Mr. TRAUB. I wouldn't know the exact amount, but it must have been in the neighborhood of a little over \$300,000, \$275,000, and various other payments I made to him, interest.

Mr. SIMON. \$200,000?

Mr. TRAUB. Over \$275,000.

Mr. SIMON. Is that all that came from you or your law firm.

Mr. TRAUB. Yes, sir.

Mr. SIMON. At the session in this room about a month ago, we called to your attention payments made by check of your firm to the order of cash, totaling over \$1 million, from the years 1947 through the year 1952. The total amount is \$1,264,928.

I understood you to say that a big part of that went to Schoenfeld.

Mr. TRAUB. I did not. You misunderstood me. Mr. Simon, you bring in a period before I had anything to do with any FHA matter. In 1947 I had never represented any client in any FHA matter, nor did I in 1948.

Mr. SIMON. When did the Farragut project start? When was the application filed?

Mr. TRAUB. I don't know. I had nothing to do with the application.

Mr. SIMON. I think you will find it was filed in 1948.

Mr. TRAUB. I had nothing to do with the application, Mr. Simon.

Mr. SIMON. You can cut it down any way you want. In 1951, which is at the height of the building of these FHA projects, the cash payments totaled \$343,741.

Mr. TRAUB. That must include payroll and all other cash.

Mr. SIMON. No, sir.

Mr. TRAUB. I think it does.

Mr. WEISMAN. I think you are in error, Mr. Simon. We analyzed it.

Mr. SIMON. Let's go to the year 1950, which is at the height of the section 608 program.

Mr. TRAUB. I don't think that was the height. The height, I think, was in 1951. I had nothing to do, Mr. Simon, with the processing of applications. When I say the height, I mean the closings. That is when I came into the picture, to close these FHA's.

Mr. SIMON. In 1951. In 1950, your income-tax return shows \$80,958 as miscellaneous expenses for clients. There is no payroll in that. Your payroll is in addition to that, listed under salaries and wages, but this item of \$80,958 is miscellaneous expense for clients.

Can you tell us what that is composed of?

Mr. TRAUB. It either may be—that is 1950?

Mr. SIMON. Yes. Do you have a ledger anywhere that shows what those items are composed of?

Mr. TRAUB. I haven't any ledgers. I never took care of any of the books, Mr. Simon. I have told you that several times.

Mr. SIMON. In the last 3 months when we have been asking you these questions hasn't your curiosity compelled you to inquire as to what your own books show?

Mr. TRAUB. Mr. Simon, it has, and I had Mr. Wiseman, my counsel, engage another firm of attorneys to try to explain the books to me. This is the first time that I became interested in books.

Mr. SIMON. Let me say this to you: You personally signed this income-tax return for the year 1950?

Mr. TRAUB. I did.

Mr. SIMON. And the biggest item in the income-tax return is the salaries and wages paid to your employees. The second biggest item is \$80,958 for miscellaneous expenses for clients.

Who gave you that figure to put in your income-tax return?

Mr. TRAUB. That figure was made up of various items that either my accountant got from the books, or from my bookkeeper.

Mr. SIMON. Your bookkeeper has said a moment ago that she doesn't know what it is. Do you have a statement, an audit report of your accountant that will show what it is?

Mr. TRAUB. The accountant may have it.

Mr. SIMON. Do you have any piece of paper that will give us a breakdown on that \$80,958?

Mr. TRAUB. No; I haven't, unless the books show it.

Mr. SIMON. Do you know whether the books will show it?

Mr. TRAUB. I don't.

Mr. SIMON. You don't know whether the books will show it?

Mr. TRAUB. No.

Mr. SIMON. The same year, 1950, the income-tax return shows a payment of \$410,718 as payments of obligations as guarantor. Is that Schoenfeld?

Mr. TRAUB. No; not all Schoenfeld. There may be part of it Schoenfeld.

The CHAIRMAN. What do you mean by "guarantor"?

Mr. TRAUB. Senator, in 1943, 1944, visualizing an upward surge in my opinion, I encouraged clients to go in and buy real estate. Many of my clients didn't have the money to buy the real estate. I borrowed the money for them, guaranteed the payments to various people, paid bonuses on the moneys that I was paying for them.

The CHAIRMAN. You borrowed the money for your clients?

Mr. TRAUB. No, sir; I did not borrow the money for my clients without telling my clients I was borrowing the money for them.

The CHAIRMAN. You borrowed the money for your clients?

Mr. TRAUB. Yes, sir.

The CHAIRMAN. Then you did what with the money?

Mr. TRAUB. They went out and bought real estate.

The CHAIRMAN. You gave them the money?

Mr. TRAUB. Yes, sir.

The CHAIRMAN. You borrowed money for them?

Mr. TRAUB. I didn't give it to them. I loaned it to them.

The CHAIRMAN. You borrowed money and loaned it to your clients to buy real estate?

Mr. TRAUB. That is correct.

The CHAIRMAN. Then what?

Mr. TRAUB. The thing started to mushroom into a tremendous snowball where I was guaranteeing a couple of million dollars worth of payments. I couldn't—

Mr. SIMON. Guaranteeing what payments?

Mr. TRAUB. Guaranteeing payments from the people I borrowed the money from.

The CHAIRMAN. In other words, you borrowed a couple of million dollars and loaned it to your clients?

Mr. TRAUB. To enable them to buy real estate.

The CHAIRMAN. Your clients should have paid you back. You in turn would have paid the people from whom you borrowed \$2 million.

Mr. TRAUB. That is right.

The CHAIRMAN. They didn't pay you back?

Mr. TRAUB. They didn't pay it back as fast as the money became due from the money I borrowed it and I had to keep on paying higher bonuses.

The CHAIRMAN. What you call a guarantor is paying off this \$2 million?

Mr. TRAUB. No. I guaranteed to these people the money would be paid back to them not from the client but by myself. I finally wound up in 1949, with a lot of deadwood. People I borrowed the money from weren't interested in what I had. All they were interested in was getting their money back.

The CHAIRMAN. Mr. Traub, then your books, I presume, that you are going to turn over to us, will show all that? I mean they will show every payment and every loan that you made and all the money you borrowed, to whom you loaned it, and it will show each payment as it came back, and so forth; will it not?

Mr. TRAUB. I don't know what the books will show, Senator. I had nothing to do with the books. My mind was on repaying this money I had to get back. That was my biggest concern.

The CHAIRMAN. It may well be possible then when you give us the books that we can have the General Accounting Office—and we have 4 or 5 men assigned to us by the General Accounting Office in Washington—that we can find out from your books then exactly what happened?

Mr. TRAUB. Senator, I have submitted that question to my lawyer, as far as turning over the books is concerned.

The CHAIRMAN. There is no question about that, is there?

Mr. TRAUB. He advises me of certain danger spots that there exist.

The CHAIRMAN. You mean you don't want to turn over your books?

Mr. TRAUB. It is not a case I don't want to turn over.

Do you know they have been examining these books on 2 or 3 occasions? You wouldn't get that from the newspapers they had the books. According to the newspapers I have been keeping the books and wouldn't let them examine them. They were there on one occasion for 10 days examining those books, and 6 nights.

Mr. WEISMAN. Six men.

The CHAIRMAN. Suppose you proceed and we will get to the books later.

Mr. SIMON. What I would like to know, if there is an explanation to it, in the period of 1947 through 1952, total amount of checks drawn to cash, excluding payroll, amounted to \$1,264,000.

Mr. TRAUB. Mr. Simon, at this point I would like to interrupt you, if I may. The figure of one-million-some-odd thousand sounds like a lot of cash checks, but I know this, and my recollection is very good. I had two bank accounts in 1948, and I used to cash a check in one

bank and deposit the proceeds, cash in another bank to meet a check that was coming into that bank.

Mr. SIMON. Do you mean kiting checks?

Mr. TRAUB. Yes, if you want to use that word, yes. So if you will check you will find out that money was deposited in the same account, in another bank account the same day.

Mr. SIMON. What period of time was that?

Mr. TRAUB. In 1947 and 1948.

So you can eliminate a half million dollars very easily.

Mr. SIMON. We still have about \$700,000 of checks drawn to cash after 1948, beginning in 1949.

Mr. TRAUB. You mean including payroll and everything?

Mr. SIMON. No, sir; exclusive of payroll.

Mr. TRAUB. I think your figures are a little wrong.

Mr. SIMON. I think you will find they are right. Let me go on and ask you the rest of my question. I also find from your tax returns that in the years 1949, 1950, 1951 and 1952 you took credit under the caption "Payment of Obligations as Guarantor" for \$1,075,000 worth of payments. That would include all these Schoenfeld payments, wouldn't it?

Mr. TRAUB. Quite a bit of it.

Mr. SIMON. And seven hundred-some-odd-thousand dollars more than Schoenfeld, is that right?

Mr. TRAUB. No.

Mr. SIMON. Didn't you tell us a moment ago that Schoenfeld got about \$300,000 from you?

Mr. TRAUB. I don't know the exact figure.

Mr. SIMON. Didn't you state that a moment ago?

Mr. TRAUB. I said over \$300,000, maybe a few thousand under \$300,000, I don't know the exact figure.

Mr. SIMON. If Schoenfeld got a few thousand under or over \$300,000 and the income-tax return shows a total of \$1,075,000—

Mr. TRAUB. You will find out quite a few checks were paid in payment of the old indebtedness.

Mr. SIMON. I am not quarreling with that. Doesn't that indicate that somebody else got about \$700,000 of the money listed in your tax return as payment of obligations as guarantor?

Mr. TRAUB. If your figures are correct, it would show that. I did not pay out \$700,000 in cash, Mr. Simon. I am sure of that.

Mr. SIMON. I am not talking about cash now. The one figure—these are three separate figures I am about to give you: The one figure of cash payments, which is \$1,264,000 in the 7-year period, that is one figure, taken by itself.

Mr. TRAUB. Why not eliminate 1947 and 1948. Let's deal with smaller figures because 1947 and 1948 I tell you I had nothing to do with this investigation or anything with the FHA.

Mr. SIMON. All right. My question will be the same in either event.

Mr. TRAUB. Let's reduce the figure and I think I can help you.

Mr. SIMON. About \$600,000 of payments to cash in 1949 through 1952.

Mr. TRAUB. Yes.

Mr. SIMON. In addition, you have \$1,075,000, not all cash, of payments to these prior obligations, which you list here "obligations as guarantor." Now, you also have in 1950, \$80,958 of miscellaneous

expenses for clients, and that is in addition in 1950 to \$410,000 on these payments as guarantor; in 1951, you have \$39,391 as miscellaneous office expense charges, and in 1952, \$106,745 as miscellaneous office expense charges. So in the years 1950, 1951, and 1952, we have \$225,000 of miscellaneous expense for clients or miscellaneous office expenses in addition to all these so-called Schoenfeld payments. And a good part of these, \$225,000, and my question is narrowed down now to this \$225,000—a good part of those were payments to cash, and your bookkeeper has testified here this morning that she very frequently issued a check to cash and charged it against office expense because she didn't know where else to charge it.

Now my question is: Are there any records anywhere that will show who got the \$225,000, and for whose benefit the money was spent?

Mr. TRAUB. All these figures that you gave me reflect one thing, Mr. Simon: that when I took a deduction of one-million-some-odd-thousand dollars, in my income-tax returns, the cash payments, office expense, clients' expense, were all included.

Mr. SIMON. Oh, no. I am sorry. The million—I tried to make that crystal clear in my question. The \$1,075,000 of payments to Schoenfeld, et al., is in addition—is separate from the \$225,000 I am talking about, and the reason I ask the question is that a month ago, when we went down this list—and every time I would ask you who got this \$5,000 in cash or who got that \$10,000 in cash, you would reply "it must have gone to Schoenfeld."

Now, therefore, we have tried to separate them into 2 piles, and we have the 1 pile of \$1,075,000, which includes all the money that on your tax returns you claimed as payments on the guaranties.

Mr. TRAUB. Which includes the cash payments, too.

Mr. SIMON. Which includes those cash payments?

Mr. TRAUB. All cash payments that I made on account of my old guaranties and prior indebtedness.

Mr. SIMON. It may very well include all cash payments made on account of guaranties, but it doesn't include all cash payments you made?

Mr. TRAUB. It does.

Mr. SIMON. I think you will find that you cannot account for the \$225,000 that I am now talking about by check.

Mr. TRAUB. You are mentioning figures that don't mean too much to me, Mr. Simon.

The CHAIRMAN. I am afraid that has been the trouble in the past. You haven't paid enough attention to your books and records.

Mr. TRAUB. To my books and records, no. That may have been the trouble, Senator.

Mr. SIMON. One of the things that doesn't make sense to me is, here is a period of time when you were a couple of million dollars in debt, and in 1950, and in 1951, we find on your books items of \$25,000, \$30,000, \$60,000, \$40,000, drawn for matters relating to Kaskell, and we go to Kaskell and ask him what these are for and he says they are all loans from you to Kaskell.

Mr. TRAUB. They are the same loan that may have revolved itself maybe 10 times in a month, Mr. Simon. He would give me a check—he would ask me if I could advance \$30,000 or \$40,000 on a certain matter for him and he would give me a check which would tell me to deposit the day after that or 2 days later.

The CHAIRMAN. Was that kiting checks, too?

Mr. TRAUB. No; that isn't kiting checks.

Mr. WEISMAN. I think if you will examine that list you are looking at, you will find a great many of these checks for \$60,000 and \$20,000 represented checks that were first given by Kaskell to Traub, and then Traub paid them out to satisfy the deposit.

Mr. SIMON. Take the beginning of 1951. On January 4, there is a \$20,000 check by Traub, and Kaskell says "This is a loan to Alfred L. Kaskell." On January 8, 4 days later, there is another \$40,000 check, and Kaskell says, "This is a loan to Alfred L. Kaskell." On March 27, there is \$2,500 in cash, and Kaskell says, "This is cash advanced by Traub to Kaskell."

Now, those are all loans, or advances by Traub to Kaskell at a time when Traub was apparently very heavily in debt.

Mr. WEISMAN. That is true. I merely wished to point out for the benefit of the committee the contravailing deposits where Kaskell first gave the money to him and then——

Mr. SIMON. We don't doubt for a minute, Mr. Weisman, that Mr. Traub was not an eleemosynary institution giving money to these people, but we are trying to find out what the money was for, who got it and why, and we would be grateful if someone could tell us where the books are that will reflect who got the \$225,000, which is exclusive of all the Schoenfeld money; who got it and why.

Mr. WEISMAN. We will be glad to help you. I made the offer in Washington. I said that obviously a lawyer couldn't do that, that we had engaged an accountant who analyzed these books who gave us a complete analyzation and I made the statement to your Mr. Hogue there in Washington and I thought we could reconcile everything and we would be glad to sit down with you and do it. It is obviously unfair to take a lawyer and ask him about 5 years of books. You are a lawyer, I am a lawyer. We know——

The CHAIRMAN. Is Mr. Traub there a lawyer?

Mr. WEISMAN. Yes.

The CHAIRMAN. It seems to me since you are a lawyer and Mr. Traub is a lawyer that Mr. Traub particularly, because lawyers are supposed to want to get facts, and see that justice is rendered—that is a part of their official code I understand—for that reason it seems to me as though you would be very, very anxious to turn over all your records and all your books to this committee, and let us find out what the exact facts are; who got the money and why.

Mr. WEISMAN. May I reply, Senator?

The CHAIRMAN. Can't we do that?

Mr. WEISMAN. Senator, I want you to know the facts. You were very kind to send me a copy of the letter you sent to Mr. Traub, and asked me to prepare a brief for you. I did, and I delivered it.

Mr. SIMON. In order that the record may be clear, may we now insert in the record, Senator, a copy of your letter to Mr. Traub of September 15, 1954, and a copy of Mr. Weisman's brief, which was submitted to you on Friday, giving his objections to——

The CHAIRMAN. The record will show that on September 15, 1954, from Chicago, that I wrote Mr. Traub and sent a copy to his attorney, Mr. Weisman.

Mr. WEISMAN. Milton C. You sent it to the wrong lawyer, but I finally got it.

The CHAIRMAN. We sent it to Herman. You are not Herman?

Mr. WEISMAN. I am not Herman. I never saw him, I don't know him, and I don't know how he got mixed up with me.

The CHAIRMAN. We were in Chicago holding hearings. This is not the first mistake I have made since 1892.

Mr. WEISMAN. I congratulate you, Senator.

The CHAIRMAN. We will make this letter a part of the record and also the brief in answer to that. In substance what I said in the letter was we are subpoenaing Mr. Traub and his records and books for this morning at 10 o'clock, and told you in the letter that if you objected to that, that we would be very happy to have you file a brief setting forth your viewpoint as to why we were not entitled to books under certain conditions.

Now we will place the letter in the record and also your brief. It is entitled "United States Senate. Hearing Held Before Committee on Banking and Currency. Memorandum of Objections to Subpoena Duces Tecum. Milton C. Weisman, Attorney for Abraham Traub, 1501 Broadway, New York, N. Y."

We will now make that part of the record.

(The information referred to follows:)

CHICAGO, ILL., *September 15, 1954.*

Mr. ABRAHAM TRAUB,  
*Brooklyn, N. Y.*

DEAR MR. TRAUB: You were previously served with a subpoena duces tecum to produce certain books and records before a session of this committee in Washington, D. C., on September 7, 1954, in room F-41 of the Capitol. At that hearing, you were permitted to retain the books and records covered by the subpoena but, I am informed, you and the documents remained subject to subpoena.

I am advised that many difficulties have arisen in connection with the efforts of our staff to determine the disposition of large sums of money, apparently flowing through your hands and apparently related to clients of yours having extensive dealings with FHA.

You are hereby directed to appear on September 27, 1954, in the north ballroom of the Astor Hotel, Broadway and 45th Streets, New York, N. Y., at 10 a. m., with all the books and records called for by the foregoing subpoena.

I personally will be in New York at that time and will rule on any requests or motions which you or your attorney may wish to make with respect to the opportunity for the staff of this committee to have a reasonable opportunity to examine those books.

To protect the record, I am issuing a second subpoena, calling for the same documents at the time and place above described; but this second subpoena is intended only to make certain that the necessary process has been issued to compel your attendance in the production of those documents at that time and place. This will be a public hearing at which there will be at least a preliminary interrogation with respect to the records, although I am informed we may not be able to complete the interrogation until there has been further study of the records.

If you or your attorney wish to present any motions or legal arguments, I ask that they be submitted in memorandum form prior to 12 noon, Saturday, September 25, 1954. These may be directed to me at my office in Washington, D. C., through 5 p. m. Friday, September 24, 1954, or at the Astor Hotel, New York, on Saturday morning, September 25, 1954. The advanced submission of this memorandum will permit me to rule on such motions promptly at 10 a. m., September 27, 1954, in order that we may then proceed without delay with our public hearing.

Yours very truly,

HOMER E. CAPEHART, *Chairman.*

## MEMORANDUM OF OBJECTIONS TO SUBPENAS DUCES TECUM

This memorandum is submitted in response to the kind invitation of Senator Capehart to submit, in memorandum form, the objections which Mr. Abraham Traub wishes to raise to the subpoenas duces tecum served upon him by this committee.

Although it is and always has been the intention of Mr. Traub to cooperate fully with the Committee on Banking and Currency of the United States Senate in its investigation of the Federal Housing Administration, he respectfully submits that he cannot, and should not, be asked to comply with either of the subpoenas duces tecum served on him, since their reach extends far beyond the scope of any investigation of that agency or of the public-housing program.

Before discussing the specific legal objections which Mr. Traub wishes to raise to these subpoenas, it would clarify the record to summarize briefly the facts to date and the efforts which Mr. Traub has made to assist this committee in the very important and significant work it is performing.

There can be no question of the value to the country of the full investigation of the public-housing program. Such an investigation should prove an indispensable and invaluable adjunct to Congress, both in detecting executive abuses of past legislation and in forming new legislation in connection with public-housing program. The qualifications of this committee to conduct such an investigation are known and respected by all. Furthermore, the caliber of the membership of the committee insures that in any investigation it conducts the rights of individual witnesses will be respected.

In recognition of all these facts Mr. Traub has, without reservation, cooperated with the investigation of the committee and has made complete disclosure of all his affairs insofar as they relate to the public-housing program. He has, however, consistently taken the position that insofar as his private affairs and those of his clients did not relate to the housing program, they were beyond the reach of this investigation. Such difficulties as have arisen between him and the staff of the committee, despite Mr. Traub's sincere efforts to cooperate in this investigation, have been due to the insistence of the committee staff upon going beyond the legitimate limits of an investigation into public housing.

Mr. Traub's original contact with this committee was a completely voluntary one. On his own volition he presented himself to the committee in place of a former client of his who was seriously injured. He did this because neither he, nor his client, had anything to conceal in relation to the public-housing program. He supplemented the information he had supplied on the original interview by additional written data, for which he received the thanks of this committee.

Subsequently, at the request of this committee, he agreed to make all his books and records available insofar as they were relevant to the matters being investigated by the committee to the committee's staff. The exact terms upon which he made these books and records available, as incorporated in a memorandum made by his counsel at the time, were as follows:

"1. Without regard to the various claims by each party as to what was to be the scope of the examination of Mr. Traub's books, your committee now takes the position that the scope of the examination of the books shall be with relation to Farragut Gardens or any other FHA project with relation to which Traub was the lawyer or had an interest.

"2. For the foregoing purposes, specifically excluding anything in the said books which does not relate to the foregoing, the books are to be made fully available to you by Traub.

"3. Before your examiners leave, all notations made by them from the books will be exhibited to us so that we will be in a position to testify, if called upon, that no information has been taken therefrom with relation to other clients or their private matters not concerned with FHA.

"4. If any such notations include any of the exclusions noted in paragraph '3,' they are to be deleted unless these notations relate to FHA projects.

"5. We are to have the right, at our expense and without delaying you, to make photostats or copies of the notes made by your examiners which have been exhibited to us."

Pursuant to this agreement Mr. Traub's books and records were fully examined in the office of his attorneys by as many as six people at the time over a period of approximately 2 weeks. No difficulties arose on such examination and the committee received full cooperation from Mr. Traub and his attorney, Milton C. Weisman.

After further interrogation on August 25 and August 26, 1954, Mr. Traub was served with a subpoena duces tecum returnable September 7, 1954, demanding all his books and records and those of his law firm, without limitation. On the return date of that subpoena Mr. Traub took the same position as he had previously, that he was willing to make available whatever was relevant to this committee's investigation, consonant with his obligations to his clients, but that he could not turn over material, not relevant, without violating his obligations to his clients. Senator Beall, who was sitting as a quorum of one of this committee on the return date, respected Mr. Traub's objections. He said:

"I don't feel as if I, sitting as a committee of one, should insist that those records be kept here. I don't think it is the intention of the committee. The intention of this committee is to take testimony, and I feel as if I am going beyond any responsibility in insisting that the records be kept here.

"I would hope that Mr. Weisman would leave them here, but if he feels, in the interest of his clients, then certainly it is the duty to protect the interests of his clients, and if they don't want to leave them here, I won't insist that they stay here." (Transcript, p. 10,637.)

It was agreed that the inspection of the books and records would continue as before with the committee's staff making available to Mr. Traub copies of the material excerpted from his books and records.

However, the staff of this committee, upon resuming the inspection of Mr. Traub's records, refused to permit a representative of Mr. Traub to be present at such inspection to assure the privacy of matters unrelated to public housing and refused to permit Mr. Traub to have copies of the material excerpted. Mr. Traub's counsel therefore terminated the inspection.

Now Mr. Traub has been served with a second subpoena duces tecum which is identical with that made returnable on September 7, 1954, and which, like the first, is a blanket demand for all his books and records and those of his law firm for the last 7 years.

From the insistence upon inspecting all Mr. Traub's records, both relevant and irrelevant to an investigation of the public-housing program and from other facts, the inference suggests itself that the staff of this committee is no longer interested solely in investigating the Federal Housing Administration or the public-housing program, but is determined to "get" Mr. Traub or his clients and for that purpose is wrongfully attempting to use the broad investigative powers of a senatorial committee to do a policeman's, or a tax collector's job.

Under these circumstances Mr. Traub, in fairness to himself and to his clients, despite his desire to cooperate to the fullest in this committee's investigation of the housing program, must insist that the inquiry as to him and as to the affairs of his clients be limited to matters directly relevant to the legislative inquiry being conducted and not encompass every facet of his business life.

We believe the record we have recited above shows conclusively, despite various statements made at various times by persons not fully acquainted with it, that Mr. Traub at all times has attempted to assist the committee in its legitimate inquiry and that whatever difficulties have arisen have only arisen when the committee staff has tried to push the investigation beyond its proper limits.

Mr. Traub respectfully submits that both the subpoena duces tecum originally served upon him and the duplicate made returnable September 27, 1954, represent an extension beyond all proper limits of the inquiry now being conducted by this committee into the public-housing program. For this reason Mr. Traub respectfully objects to both subpoenas and requests a ruling by a quorum of at least one-third of this committee on his objections. He respectfully submits that Senator Beall has already indicated that he also believes that a quorum of one is not intended to do anything except take sworn testimony, and, consequently, is not competent to rule upon Mr. Traub's objections nor to require him to produce his books and records over such objections. It is respectfully submitted that Senator Beall cannot be overruled except by a full committee.

The objections to the subpoena duces tecum upon which Mr. Traub requests a ruling by the full committee are:

1. The subpoena made returnable Monday, September 27, 1954, was improperly issued in view of the fact that the subpoena made returnable September 7, 1954, was still outstanding and had not been quashed or terminated in any way.

2. The subpoenas are in violation of the fourth amendment to the Constitution in that they constitute an unreasonable search and seizure.

3. Both subpoenas are improperly drawn because they fail to set forth what the subject matter under consideration by the committee is as to which Mr. Traub's records are deemed pertinent.

4. The subpoenas are improper on their face because they call for material which clearly is not pertinent to any inquiry now being conducted by the committee.

5. The subpoenas are improper on their face and cannot be complied with because they call for the revelation of confidential communications between an attorney and his client.

As earlier stated herein, it is our position that these objections cannot be ruled on by a single Senator sitting as a quorum of one. It is further our position that the power given a single Senator sitting as a quorum of a standing committee to take sworn testimony does not include the right to sequester books and records and that consequently unless a quorum of one-third or more of the committee is present on the return date of the subpoena, September 27, 1954, Mr. Traub cannot be compelled to produce and leave behind the books, records, and papers called for by the subpoena.

#### THE SECOND SUBPENA DUCES TECUM WAS IMPROPERLY ISSUED

Before discussing Mr. Traub's substantive objections to the subpoenas served upon him we should like to take up briefly the reasons why we think the second subpoena duces tecum served upon Mr. Traub and made returnable September 27, 1954, is entirely improper and should be quashed.

As we stated earlier, Mr. Traub was originally served with a subpoena which was made returnable on Tuesday, September 7, 1954. At the appointed time he appeared with his counsel at the place fixed by the subpoena and there found Senator Beall sitting as a quorum of one for the purpose of taking sworn testimony. Mr. Traub's attorney thereupon raised various objections to the subpoena. At the conclusion of the hearing Senator Beall stated that, sitting as a committee of one, he did not think it proper for him to rule on these objections, and ruled that Mr. Traub's books need not be left. Notwithstanding this, Mr. Weisman, Mr. Traub's attorney, to demonstrate Mr. Traub's willingness to cooperate, agreed to make all relevant material called for available in New York under such circumstances as would protect Mr. Traub's rights and the rights of his clients and those of his law firm. The subpoena was not quashed. Counsel for the committee specifically stated that it was not being released or discharged. (Transcript, p. 10638.)

With this subpoena still outstanding, a second subpoena, duplicating it, has been issued, returnable Monday, September 27, 1954, at a committee hearing. At that hearing Senator Capehart presumably will be sitting as a quorum of one.

It needs no attenuation of argument to demonstrate that it is inconsistent with lawful and proper procedure for an identical second subpoena to be issued when there is issued and outstanding another first subpoena, to which objections have been raised, and which objections have been sustained to the propriety, and final consideration thereof reserved for the committee, as distinguished from one member.

This multiplicity of subpoenas suggests a lack of cooperation on the part of the witness which is completely contrary to the facts. On the contrary, had the witness wished not to cooperate with the committee he would not have offered to make available to it, under conditions which would respect his rights, all relevant and pertinent material.

The committee staff, however, has refused to recognize the limits placed upon the offer and has, therefore, made it impossible to carry out the offer, gratuitously made by Mr. Traub before Senator Beall.

The proper procedure would now seem to be for the committee to take up the original objections made to the subpoena on which Mr. Traub has not yet had a ruling. Instead, the staff of the committee issues a second subpoena, while keeping the first alive, thereby building a record of recalcitrance and lack of cooperation as to which there is no basis in fact.

The second subpoena should be quashed as improperly issued and the only subpoena which should be considered as properly before the committee is the first subpoena, previously considered by Senator Beall and now outstanding.

Furthermore, in ruling upon the objections made by Mr. Traub to that subpoena, cognizance should be taken of the position already taken by Senator Beall in reference thereto.

## II

## THE SUBPENAS CONSTITUTE AN UNREASONABLE SEARCH AND SEISURE IN VIOLATION OF THE FOURTH AMENDMENT

We respectfully submit and urge that each of the two subpoenas served on Mr. Traub constitute a constructive "search and seizure" in violation of the fourth amendment and are absolutely and fundamentally illegal. If we are nevertheless directed by this committee to comply with these subpoenas and do so under penalty of indictment for contempt, we herewith advise the committee that we shall continue to so contend in any further proceedings in which there is any attempt to use the books, papers, and records produced under these subpoenas by compulsion of this committee, and shall move to quash such proceedings upon the ground that such evidence was illegally obtained in violation of our constitutional rights.

There can be no question that these subpoenas violate the fourth amendment and amount to an illegal general search warrant. As a matter of fact, they could not be drawn in broader terms or more violative terms. Each subpoena calls for every single book and record "referring to or relating to" any (meaning all) payment received or disbursement made by either Mr. Traub or by his law firm for the last 7 years. There is no limitation in either subpoena; it is not limited to the books and records relevant to the inquiry. On the contrary, the subpoenas are deliberately drafted so as to call for everything, relevant and irrelevant. They specifically provide that the material to be produced is "including but not limited to" the particularized items. Paraphrased, the subpoenas require the production of "all books and records, relevant and irrelevant, including but not limited to the relevant books and records."

Under these subpoenas Mr. Traub is required to produce every book in his office evidencing the basis upon which either he or his firm has received any payment or authorized any disbursement in the last 7 years. It does not matter to what such payment relates or for what purpose the disbursements were made. The only standard is whether or not the payment or disbursement was made subsequent to January 1, 1948.

These subpoenas require Mr. Traub to reveal the affairs of all the clients of his law firm regardless of whether they came to consult him or one of his associates on matrimonial difficulties, or other personal matters, on ordinary business deals, or whatever. There can be no question that these dragnet subpoenas reach matters completely unrelated to the Federal Housing Administration or to the public-housing program.

We are not dealing here with a corporation existing by grace of the legislature or with corporate books or records. We are concerned here with private persons only. As this committee knows, only an individual can practice law. The firm of Dreyer & Traub is a firm of individuals engaged in the practice of law. Mr. Traub and they are entitled to the full protection of the fourth amendment. They cannot, consonant with our constitutional system, be subjected to a search of their personal papers in the hope of securing evidence of some infraction of the law under the guise of legislative inquiry. It seems clear that this is what is intended here. If the staff of the committee was interested solely in an investigation of matters within the jurisdiction of this committee, it could easily have limited its subpoenas to matters pertinent to the inquiry now being conducted. It chose not to do so after their attention was called to the vice of the subpoena. Instead, disregarding all constitutional limitations, it drafted and issued a broad subpoena to fish up everything in the possession of either Mr. Traub or of the law firm of Dreyer & Traub, regardless of its relevancy or pertinency to the present inquiry.

We submit that this committee cannot constitutionally enforce these subpoenas against Mr. Traub. If it uses its great powers to do so it will be participating in exactly the kind of invasion of personal liberty and privacy which the fourth amendment was designed to prohibit. We cannot believe that this committee, composed as it is of men distinguished for their devotion to the highest ideals of our country, would lend itself to any encroachment on the rights guaranteed by our Constitution. We are confident that this committee will not compel Mr. Traub to comply with the general warrant issued by its well-intentioned but mistakenly overzealous staff.

**A. The compulsory production by subpoena or other means of all a man's private papers is prohibited by the fourth amendment**

The exhaustive history of the fourth amendment contained in *Boyd v. United States* (116 U. S. 616) conclusively shows that it was designed to prevent the compulsory extortion by whatever means of a man's private papers for the purposes of a general search.

As the Supreme Court there points out (116 U. S. at pp. 625-627), the concept of what constitutes an unreasonable search and seizure in the minds of the drafters of our Constitution is that expressed in a leading British case dealing with the forcible seizure of private papers through the use of a general warrant (*Entick v. Carrington and Three Other Kings Messengers*, 19 Howell's State Trials 1019).

In that case Lord Camden declared that one's papers are his dearest property, showed that the law of England did not authorize a search of private papers to help forward conviction even in cases of most atrocious crimes, and said (p. 1073) :

"Whether this proceedeth from the gentleness of the law towards criminals, or from a consideration that such a power would be more pernicious to the innocent than useful to the public, I will not say. It is very certain, that the law obligeth no man to accuse himself; because the necessary means of compelling self-accusation, falling upon the innocent as well as the guilty, would be both cruel and unjust; and it should seem, that search for evidence is disallowed upon the same principle. There, too, the innocent would be confounded with the guilty."

As the Supreme Court opinion in the *Boyd* case goes on to indicate, the principles underlying the British judgment apply equally to any invasion of a man's privacy by whatever means. The substance of the offense is the compulsory production of a man's private papers whether by search warrant, subpoena or statutory compulsion. The *Boyd* opinion reads (116 U. S. at p. 630) :

"The principles laid down in this opinion affect the very essence of constitutional liberty and security. They reach farther than the concrete form of the case when before the court, with its adventitious circumstances; they apply to all invasions on the part of the Government and its employees of the sanctity of a man's home and the privacies of life. It is not the breaking of his doors, and the rummaging of his drawers, that constitutes the essence of the offense, but it is the invasion of his indefeasible right of personal security, personal liberty, and private property, where that right has never been forfeited by his conviction of some public offense, it is the invasion of this sacred right which underlies and constitutes the essence of Lord Camden's judgment. Breaking into a house and opening boxes and drawers are circumstances of aggravation; but any forcible and compulsory extortion of a man's own testimony or of his private papers to be used as evidence to convict him of crime or to forfeit his goods, is within the condemnation of that judgment."

Upon the basis of these principles the Court went on to hold that a law requiring the production of private books, invoices, or records, on pain of treating their nonproduction as a confession of allegations in a criminal case, was unconstitutional and void.

Upon the basis of these same principles the Supreme Court, 20 years later, held a subpoena duces tecum to be in violation of the fourth amendment (*Hale v. Henkel*, 201 U. S. 43). The Court there said at pages 76-77 :

"We are also of opinion that an order for the production of books and papers may constitute an unreasonable search and seizure within the fourth amendment. While a search ordinarily implies a quest by an officer of the law, and a seizure contemplates a forcible dispossession of the owner, still, as was held in the *Boyd* case, the substance of the offense is the compulsory production of private papers, whether under a search warrant or a subpoena duces tecum, against which the person, be he individual or corporation, is entitled to protection. Applying the case, we think the subpoena duces tecum is far too sweeping in its terms to be regarded as reasonable. It does not require the production of a single contract, or of contracts with a particular corporation, or a limited number of documents, but all understandings, contracts or correspondence between the MacAndrews & Forbes Co., and no less than 6 different companies, as well as all reports made, and accounts rendered by such companies from the date of the organization of the MacAndrews & Forbes Co., as well as all letters received by that company since its organization from more than a dozen different companies, situated in 7 different States in the Union.

"If the writ had required the production of all the books, papers, and documents found in the office of the MacAndrews & Forbes Co., it would scarcely be more universal in its operation, or more completely put to a stop to the business of that company. Indeed, it is difficult to say how its business could be carried on after it had been denuded of this mass of material, which is not shown to be necessary in the prosecution of this case, and is clearly in violation of the general principle of law with regard to the particularity required in the description of documents necessary to a search warrant or subpoena. Doubtless many, if not all, of these documents may ultimately be required, but some necessity should be shown, either from an examination of the witnesses orally, or from the known transactions of these companies with the other companies implicated, or some evidence of their materiality produced, to justify an order for the production of such a mass of paper. A general subpoena of this description is equally indefensible as a search warrant would be if couched in similar terms."

Just as the Supreme Court had refused to allow a general subpoena to search out all a corporation's records, so in *Federal Trade Commission v. American Tobacco Company* (264 U. S. 298), it refused to permit by reason of constitutional interdiction an administrative agency to compel disclosure of all a corporation's books and papers. In that case the Federal Trade Commission, pursuant to authority given it by Congress to investigate the affairs of corporations engaged in commerce sought to compel the American Tobacco Co. and the P. Lorillard Co. to exhibit to it all letters and telegrams received or sent by each company during 1921 and also to require the latter company to exhibit certain other material. The Federal Trade Commission predicated its demand on the right given it to investigate unfair practices in interstate matters. The Supreme Court of the United States refused to compel disclosure of the records sought by the Federal Trade Commission. It said (264 U. S. at pp. 305-307):

"\* \* \* Anyone who respects the spirit as well as the letter of the fourth amendment would be loath to believe that Congress intended to authorize one of its subordinate agencies to sweep all our traditions into the fire (*Interstate Commerce Commission v. Brimson*, 154 U. S. 447, 479), and to direct fishing expeditions into private papers on the possibility that they may disclose evidence of crime. We do not discuss the question whether it could do so if it tried, as nothing short of the most explicit language would induce us to attribute to Congress that intent. The interruption of business, the possible revelation of trade secrets, and the expense that compliance with the Commission's wholesale demand would cause are the least considerations. It is contrary to the first principles of justice to allow a search through all the respondents' records, relevant or irrelevant, in the hope that something will turn up. \* \* \*

"\* \* \* A general subpoena in the form of these petitions would be bad. Some evidence of the materiality of the papers demanded must be produced (*Hale v. Henkel*, 201 U. S. 43, 77). \* \* \*

"The demand was not only general but extended to the records and correspondence concerning business done wholly within the State. This is made a distinct ground of objection. We assume for present purposes that even some part of the presumably large mass of papers relating only to intrastate business may be so connected with charges of unfair competition in interstate matters as to be relevant (*Stafford v. Wallace*, 258 U. S. 495, 520, 521), but that possibility does not warrant a demand for the whole. \* \* \*

See also *Silverthorne Lumber Co. v. United States* (251 U. S. 385); *Okla. Press Pub. Co. v. Walling* (327 U. S. 186).

As these cases show, the Supreme Court has consistently held that the fourth amendment will not permit an unlimited search through private papers or their compulsory production for that purpose.

#### B. Congress, like the courts, is bound by the fourth amendment

There can be no question that the fourth amendment applies with the same force and effect to legislative action as to executive or judicial action (*Nelson v. United States* 208 F. 2d 505 (C. A. D. C.), certiorari denied, 346 U. S. 827).

In that case a member of the staff of the Senate's Special Committee to Investigate Crime in Interstate Commerce accompanied a witness to his home and there took certain papers from him. The Court of Appeals for the District of Columbia held that the material had been taken in violation of the witness' rights and should have been suppressed. It said (208 F. 2d at p. 513):

"Though a court can no more enjoin a congressional committee from making an unconstitutional search and seizure than it can enjoin Congress from passing an unconstitutional bill, a court does have the power and duty to deny legal

effect to either in an action before it. The fourth amendment exempts no branch of the Federal Government from the commandment that "The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated \* \* \*." This constitutional guaranty applies with equal force to executive, legislative, and judicial action."

*O. The subpoenas here involved by indiscriminately requiring the production of all books and records, both relevant and irrelevant, violate the fourth amendment*

As we have shown, the fourth amendment applies to the compulsory production of private papers, whether compelled by physical force or legal procedure, and whether by executive, judicial or legislative action.

It is well settled by the authorities cited earlier (*Hale v. Henkel, supra*; *Federal Trade Commission v. America Tobacco Co., supra*; *Okla. Press Pub. Co. v. Walling, supra*) that a general subpoena calling for documents so broadly and indefinitely as to approach the character of a general warrant violates the fourth amendment.

The subpoenas served upon Mr. Traub fall squarely within this category. Like the subpoena in *Hale v. Henkel, supra*, each "is far too sweeping in its terms to be regarded as reasonable." They are not directed to the books and records relating to clients engaged in some aspect of the public housing program, or to expenditures or payments in connection with such program, but call for every book and record of Mr. Traub and his law firm for the last 7 years. As the Supreme Court said in *Hale v. Henkel*, "some necessity should be shown \* \* \* or some evidence of their materiality produced, to justify an order for the production of such a mass of papers" (201 U. S. at pp. 76-77).

*D. The subpoenas violate the constitutional rights of Traub's partners*

The subpoenas served on Mr. Traub violate not only his rights under the fourth amendment but also those of his partners. They call on him to produce not only all his personal papers but also all the papers of the law firm of which he is a member. For that reason they constitute an unreasonable search and seizure as to each one of Mr. Traub's partners (*In re Subpoena Duces Tecum*, 81 F. Supp. 418 (N. D. Cal.)).

*E. Any books or records produced under compulsion of these subpoenas will be unavailable to the Government in any future proceeding because secured through an illegal search and seizure.*

This committee has the power to compel Mr. Traub to produce the books and records called for by the subpoena. If it orders him to produce them he will have no alternative but to do so or run the risk of a possible jail sentence and fine. Sanctions of this character fall with peculiar severity on a member of the bar who all his life had had the respect of his community.

If this committee secures Mr. Traub's books and records in violation of his constitutional rights by directing their production, on pain of contempt proceedings if the direction is not met, its possession of these records will be no different from possession secured by any other type of unreasonable search and seizure.

If there should be any attempt to use these records against Mr. Traub in any subsequent judicial proceeding, Mr. Traub will move for their suppression as the fruits of an illegal search and seizure. His right to do so is firmly established in the law (*United States v. Lefkowitz*, 285 U. S. 452; *Weeks v. United States*, 232 U. S. 383; *Silverthorne Lumber Co. v. United States*, 251 U. S. 385; *McDonald v. United States*, 335 U. S. 451; *Nelson v. United States, supra*).

As the Supreme Court said in a recent opinion directing the suppression of evidence illegally gathered in violation of the fourth amendment (*McDonald v. United States, supra*, at p. 453):

"This guaranty of protection against unreasonable searches and seizures extends to the innocent and the guilty alike. It marks the right of privacy as one of the unique values of our civilization and, with few exceptions, stays the hands of the police unless they have a search warrant issued by a magistrate on probable cause supported by oath or affirmation. And the law provides as a sanction against the flouting of this constitutional safeguard the suppression of evidence secured as a result of the violation, when it is tendered in a Federal court."

We do not believe, however, that it will ever be necessary for Mr. Traub to seek to suppress any material gathered by this committee as in violation of his constitutional rights, because we do not think this committee would take any

action that would raise a constitutional question. We know that Congress is as aware as are the courts of the importance of preserving our constitutional rights and privileges against even the best intended encroachment.

As the Supreme Court of the United States said in *Gouled v. United States* (255 U. S. 298, 303-304), in discussing the fourth and fifth amendments:

"It would not be possible to add to the emphasis with which the framers of our Constitution and this Court (in *Boyd v. United States*, 116 U. S. 616, in *Weeks v. United States*, 232 U. S. 383, and in *Silverthorne Lumber Co. v. United States*, 251 U. S. 385) have declared the importance to political liberty and to the welfare of our country of the due observance of the rights guaranteed under the Constitution by these two amendments. The effect of the decisions cited is: That such rights are declared to be indispensable to the 'full enjoyment of personal security, personal liberty, and private property'; that they are to be regarded as of the very essence of constitutional liberty; and that the guaranty of them is as important and as imperative as are the guaranties of the other fundamental rights of the individual citizen—the right to trial by jury, to the writ of habeas corpus and to due process of law. It has been repeatedly decided that these amendments should receive a liberal construction, so as to prevent stealthy encroachment upon or 'gradual depreciation' of the rights secured by them, by imperceptible practice of courts or by well-intentioned but mistakenly overzealous executive officers."

### III

THE SUBPENAS ARE BAD BECAUSE THEY CALL FOR BOOKS AND RECORDS WHICH ARE NOT PERTINENT TO ANY INVESTIGATION BEING CONDUCTED IN AID OF LEGISLATION

It is impossible from the face of the subpoenas to ascertain in reference to what inquiry now being conducted by this committee Mr. Traub's testimony and the books and records are being sought. The subpoenas provide only that he is required to testify as to what he "may know relative to the subject matters under consideration by said committee." For reasons set forth at length below, Mr. Traub respectfully submits that a subpoena in this form is bad, and that a subpoena must specify the legislative inquiry as to which his testimony is desired.

Passing this point, however, and assuming that the "subject matters under consideration by said committee" are those embraced within the general jurisdiction of this committee as a standing committee, the records called for by the subpoenas clearly contain much which is in no way pertinent to any of the subjects within the jurisdiction of this committee. The obligation does not rest upon Mr. Traub to cull the bad from the good in the subpoenas. Since the subpoenas call for much that is irrelevant and not pertinent to any legislative inquiry, Mr. Traub has the right to withhold the records requested. Unless there is some legislative inquiry to which Mr. Traub's private affairs are pertinent, his right to be exempt from any disclosure of his personal and private affairs must be respected.

#### A. *The subpoenas are fatally defective in failing to specify what legislative inquiry is being conducted to which testimony and records are pertinent*

Neither subpoena addressed to Mr. Traub advises him as to what legislative inquiry his testimony and his books and records are deemed to be pertinent.

As the courts of this country have repeatedly recognized, "\* \* \* a witness rightfully may refuse to answer \* \* \* where the questions asked are not pertinent to the matter under inquiry." *Sinclair v. United States* 279 U. S. 263, 292.)

Obviously, however, a witness may exercise this right only where he is advised what is the subject matter of the inquiry. Otherwise he has no way of determining whether or not the evidence he is required to produce is pertinent. At best, a witness who wishes to protect himself against unjustified invasions of his right of privacy acts at his peril in refusing to answer on ground of lack of pertinency, since an error will place him in jail. Where, however, the committee does not even advise the witness to what inquiry his testimony is pertinent, it makes a complete sham and mockery of the witness' inalienable right to resist unwarranted invasions of his privacy. It is against the first principles of justice to permit a legislative body to withhold from the witness the information he requires for his protection.

There can be no question that Mr. Traub is required to answer any questions or to produce any records pertinent to a proper legislative inquiry being conducted by this committee. There can equally be no question that Mr. Traub has the right

to withhold from the scrutiny of this committee (which means scrutiny by every newspaper, radio, and television station in this country) his private books and records which in no way bear upon any proper legislative inquiry. Mr. Traub is entitled, therefore, to have the subpoena addressed to him set forth specifically what the inquiry being conducted by this committee is so that he can properly prepare his testimony in advance and determine what he is entitled to withhold as not pertinent.

It is no answer to say that Mr. Traub is able by guesswork or inference to determine what the inquiry is about. A witness should not have to go to the newspapers to determine the facts essential to the assertion by him of his constitutional rights. He is entitled to know and to have stated on the face of the subpoena what inquiry is being conducted by the committee as to which his testimony and the evidence required from him is deemed to be relevant. It is respectfully submitted that these subpoenas are fatally defective for failing to do so.

*B. The subpoenas call for material not pertinent to any inquiry now being conducted by this committee*

In view of the fact that the subpoenas fail to specify what subject matter is under consideration by this committee, it must be guessed at by reference to the public press, to previous interrogations of Mr. Traub by members of the committee staff, and by reference to the known jurisdiction of this committee.

The Legislative Reorganization Act of 1946 includes within the jurisdiction of this committee the subjects, Public and Private Housing and Financial Aid to Commerce and Industry, not assigned elsewhere. From the newspaper reports on the current hearings being conducted by this committee and from the character of the questions previously addressed to Mr. Traub, it is assumed that the subject matter now under consideration by this committee falls within "Public and private housing" and relates specifically to the Federal Housing Administration.

The subpoenas addressed to Mr. Traub, however, are not confined to books and records pertinent to an investigation of public and private housing but embrace all the books and records of him and of his firm. As we have pointed out earlier herein, the subpoenas ask for records as to payments and disbursements that have no relationship to, and are not concerned with, anyone having any connection with public and private housing. On their face the subpoenas clearly call for papers entirely irrelevant to any inquiry into public and private housing and which cannot be pertinent to such an inquiry.

As we pointed out earlier herein, Congress does not have the right to roam at will among an individual's private papers. As Justice Brandies, dissenting in *Olmstead v. United States* (277 U. S. 438, 478-479), said:

"The makers of our Constitution undertook to secure conditions favorable to the pursuit of happiness. They recognized the significance of man's spiritual nature, of his feelings, and of his intellect. They knew that only a part of the pain, pleasure, and satisfactions of life are to be found in material things. They sought to protect Americans in their beliefs, their thoughts, their emotions, and their sensations. They conferred, as against the Government, the right to be let alone—the most comprehensive of rights and the right most valued by civilized men. To protect that right, every unjustifiable intrusion by the Government upon the privacy of the individual, whatever the means employed, must be deemed a violation of the fourth amendment."

There can be no greater invasion of the right of privacy of an individual at this time than to be called before a congressional investigating committee and to be placed under scrutiny by the entire country. The newspapers, the radio, television, and newsreels combine to broadcast the name and face of witnesses before such a committee to every corner of the United States. The very fact of the inquiry itself subjects such witnesses to public suspicion.

The limits placed on a legislative inquiry are firmly laid down in the decisions of the United States Supreme Court. It has been settled law in this country since *Kilbourne v. Thompson* (103 U. S. 168), that Congress may not conduct an investigation into the personal affairs of individuals unrelated to any legislative purpose. In that case the Court held that a resolution of the House of Representatives authorizing the investigation of a real-estate pool was in excess of the power conferred on that body by the Constitution, and that the committee established by that resolution had no right to compel witnesses to testify before it as to their private affairs nor to punish them for contempt for failing to so testify.

The Supreme Court has only sustained the right of Congress to investigate the private affairs of individuals where such inquiry is pertinent to some legitimate function of Congress. In *McGrain v. Daugherty* (273 U. S. 135), the Supreme Court summarized the law on this point as follows:

"While these cases are not decisive of the question we are considering, they definitely settle two propositions which we recognize as entirely sound and having a bearing on its solution: One, that the two Houses of Congress, in their separate relations, possess not only such powers as are expressly granted to them by the Constitution, but such auxiliary powers as are necessary and appropriate to make the express powers effective; and, the other, that neither House is invested with 'general' power to inquire into private affairs and compel disclosures, but only with such limited power of inquiry as is shown to exist when the rule of constitutional interpretation just stated is rightly applied."

Applying these principles to the matter before them, which was whether a witness was within his rights in refusing to appear before a Senate investigating committee, the Supreme Court stated that the power of the Senate to compel a witness to appear rested on whether "the purpose for which the witness's testimony was sought was to obtain information in aid of the legislative function" (273 U. S., at p. 176). It concluded the testimony was sought in connection with a legislative function and that, consequently, the witness was required to appear.

Where, however, the testimony sought is not in aid of a legislative function, then a witness may properly refuse to furnish it. The rule is stated as follows, in *Sinclair v. United States* (279 U. S. 263, 291-292):

"\* \* \* while the power of inquiry is an essential and appropriate auxiliary to the legislative function, it must be exerted with due regard for the rights of witnesses, and that a witness rightfully may refuse to answer where the bounds of the power are exceeded or where the questions asked are not pertinent to the matter under inquiry.

"It has always been recognized in this country, and it is well to remember, that few if any of the rights of the people guarded by fundamental law are of greater importance to their happiness and safety than the right to be exempt from all unauthorized, arbitrary, or unreasonable inquiries and disclosures in respect of their personal and private affairs. \* \* \*"

The most recent affirmation of the principle that a witness may refuse to produce information which is not pertinent to a proper legislative inquiry is to be found in *United States v. Rumley* (345 U. S. 41).

That case involved the following facts: The House of Representatives had authorized the House Select Committee on Lobbying Activities to conduct a study and investigation of "all lobbying activities" and of certain other matters. Pursuant to that authorization the House committee sought to compel Rumley to disclose the names of those who made bulk purchase of the books sold by an organization known as the Committee for Constitutional Government. Rumley refused to do so and was indicted and convicted of contempt. The Court of Appeals reversed and was affirmed by the Supreme Court. The Supreme Court held that the authorization to investigate "lobbying activities" authorized only an investigation of "lobbying in its commonly accepted sense," that is, "representations made directly to the Congress, its members, or its committees." Since the information sought from Rumley did not relate to lobbying in its commonly accepted sense, the Court held that he had a right to refuse the information requested.

It is not necessary even for the witness to point out that the information being sought from him is not pertinent to the matter under investigation for him to be protected in his right to refuse to disclose such information (*Bowers v. United States* (202 F. 2d 447 (C. A. D. C.))). That case turned on the following facts: By special resolution the Senate created a Special Committee To Investigate Organized Crime in Interstate Commerce. One of the witnesses before that committee was one Bowers. Among other things, Bowers was asked upon what business he had been engaged on a trip he had made to Chicago in 1927. He was also asked how he had earned some \$7,000 which he had invested in 1942. For his refusal to answer these inquiries, among others, he was indicted and convicted in the trial court for contempt of Congress. The court of appeals reversed. It held that the burden was on the Government to show that the questions which the witness refused to answer were pertinent to some matter being investigated, and since there was nothing on the face of these questions to show in what way they were pertinent to the matter under inquiry, some factual showing in addition thereto was required from the Government.

The court held that it was immaterial that Bowers had not assigned lack of pertinency as his reason for refusing to answer the questions.

As these cases show, a witness has an absolute right to refuse to answer any question calling for information or to produce any records relating to matters not pertinent to a proper legislative inquiry. Furthermore, he cannot be prosecuted for contempt of Congress unless the Government can show that the inquiry was in fact pertinent.

Applying the principles for which these cases stand to the books and records called for by the subpoenas issued by this committee, it is clear that Mr. Traub has the right to refuse to make the material called for available.

As we have pointed out earlier herein, the subpoenas are not limited to requiring the production of books and records containing information pertinent either to clients interested in public housing or to projects involving public housing. The subpoenas instead call for the production of every record of Mr. Traub or his law firm for the last 7 years, regardless of subject matter. They call for books and records which relate only to the private affairs of Mr. Traub and of his clients. There can be no question that these subpoenas call for a mass of material most of which cannot possibly be pertinent to any investigation within the jurisdiction of this committee.

Since the subpoenas make no distinction between what is, and what is not, pertinent to the inquiry being conducted by this committee, Mr. Traub cannot be compelled to comply with them. The burden is not upon him to cull the bad from the good (*Bowman Dairy Company v. United States* (341 U. S. 214); *Federal Trade Commission v. American Tobacco Co* (264 U. S. 298); *United States v. Patterson* (206 F. 2d 433 (C. A. D. C.))).

The Supreme Court has said:

"The burden \* \* \* is not upon the person who faces punishment to cull the good from the bad" (*Bowman Dairy Company v. United States, supra*, p. 221).

The Court of Appeals for the District of Columbia has held that where a subpoena duces tecum calls for both relevant and irrelevant information a witness cannot be held in contempt for refusing to comply therewith entirely (*United States v. Patterson, supra*). The court there said (206 F. 2d at p. 434):

"Viewed in the light of *Rumley*, it is clear that the instant indictment rests upon a committee subpoena that exceeded the authority delegated by Congress to the committee in House Resolution 298. It is true that documents 'relating to (a) the organization and finances of the Civil Rights Congress, and (b) the activities of the Civil Rights Congress \* \* \* pertaining to legislation' might include matters pertinent to 'representations made directly to the Congress, its Members, or its committees.' But it is equally clear that they are not so limited. An examination of the subpoena in question discloses that the committee sought, inter alia, documents relating to 'attempts or plans to influence such legislation, either directly or indirectly.'

"The Supreme Court has ruled: 'One should not be held in contempt under a subpoena that is part good and part bad. The burden is on the court to see that the subpoena is good in its entirety and it is not upon the person who faces punishment to cull the good from the bad.' Logic dictates and principles of equal justice compel application of the same rule to an indictment for contempt which rests upon a congressional subpoena."

#### IV

##### THE SUBPOENA REQUIRES VIOLATION OF THE ATTORNEY-CLIENT PRIVILEGE

There is no principle better established in Anglo-Saxon jurisprudence than the inviolability of the confidence placed by a client in his attorney. It is recognized as fundamental to our law that a person needing legal counsel must feel completely free to confide in his attorney, secure in the knowledge that his confidences will not be revealed. Because of this principle, persons who are being subjected to blackmail, others who are in difficult personal situations due to imprudence, carelessness, or other weaknesses feel free to seek legal counsel and to make full disclosure.

In the State of New York, in which Mr. Traub and his firm practice law, the attorney-client privilege is part of our statutory law. Section 353 of the Civil Practice Act provides as follows:

**“§ 353. Attorneys and their employees not to disclose communications.**

“An attorney or counselor at law shall not be allowed to disclose a communication, made by his client to him, or his advice given thereon, in the course of his professional employment nor shall any clerk, stenographer, or other person employed by such attorney or counselor be allowed to disclose any such communication or advice given thereon.”

The courts of New York have held that this section prohibits an attorney from disclosing payments made by him on the instructions of his client (*Appel v. Halbe*, 207 App. Div. 315, 202 N. Y. Supp. 364). And the Federal courts in New York have held the terms of an attorney's retainer to be within the privilege (*Magida v. Continental Can Co.*, 12 F. R. D. 74, 76 (S. D. N. Y.)).

The subpoena duces tecum addressed to Mr. Traub would require him to violate the confidences placed in him and his law firm by their clients and would compel him, contrary to the statutory prohibition placed on him, to disclose payments made by him, the amounts of his retainers, and a great deal of other confidential information.

The same considerations which have led the courts to recognize the importance of the attorney-client privilege apply to congressional inquiries. No one would feel secure in consulting with a lawyer if he knew that, while no court could compel the disclosure of what he said, any legislative committee could. We have no doubt that this committee, which numbers among its members so many distinguished members of the bar, would do nothing to cut down on this fundamental privilege between attorney and client.

Yet, as pointed out earlier herein, the subpoenas addressed to Mr. Traub do the utmost violence to this privilege. They call upon Mr. Traub to disclose all the records relating to every client of the firm of Dreyer & Traub for the last 7 years. It matters not in what connection such client may have consulted the law firm, his affairs are required to be revealed to the committee.

These subpoenas make a mockery of the attorney-client privilege. If they should be upheld, it would mean that whenever any attorney or his law firm became involved in a legislative inquiry relating to any of his clients' affairs, the affairs of every other client would become public property. Freedom of consultation would be entirely lost. No one would feel safe in seeking legal counsel.

Senator Beall, although he is not a lawyer, indicated that he would do nothing to cut down the attorney-client privilege.

He indicated that he would not compel the production of matters pertaining to clients whose affairs were in no way relevant, or pertinent, to the inquiry being made.

I am sure that the other Senators of the committee will show the same respect for the importance of guarding the confidences between attorney and client that Senator Beall has displayed. Those members of the committee who are lawyers will appreciate even more keenly than Senator Beall the importance of that privilege.

Until now Mr. Traub has endeavored to respect the confidences of the clients of himself and his law firm by not revealing any information as to them. He has been able to do so because he has at no time lost control of his books and records.

Enforcement of the subpoenas by taking from Mr. Traub's possession the records of the firm of Dreyer & Traub and of himself would make it impossible for Mr. Traub to continue to protect his clients in accordance with the attorney-client privilege.

For this reason, if for no other, the subpoenas are improper and should not be enforced.

V

A QUORUM OF LESS THAN A THIRD OF THE COMMITTEE DOES NOT HAVE THE POWER TO RULE ON MR. TRAUB'S OBJECTIONS TO THE SUBPENAS OR TO RECEIVE IN EVIDENCE BOOKS AND RECORDS PRODUCED PURSUANT THERETO

Senator Capehart in his letter to Mr. Traub has requested that all objections to the subpoena be placed in writing so that he may rule on them on Monday, September 27, 1954. It is assumed from this letter that Senator Capehart will be sitting alone on September 27, 1954.

The Legislative Reorganization Act of 1946 provides that a quorum for the transaction of business is to be fixed by each standing committee, but is not to consist of less than one-third of its entire membership. It allows a quorum of less than one-third for one purpose only and that is "for the purpose of taking sworn testimony."

It is respectfully submitted that the power to take sworn testimony is a very limited one and embraces neither the power to rule on objections to a subpoena duces tecum nor to receive in evidence books and records produced pursuant thereto and certainly not to sequester the latter and permit strangers to roam at will through them and to cull from them what they please.

*A. The objections raised herein to the subpoenas can only be ruled on by a quorum of one-third, or more, of the membership of the committee*

The Court of Appeals for the District of Columbia in three recent decisions has held that before a witness may be held in contempt for refusing to answer a congressional inquiry he must be apprized that his reasons for refusing to do so have been overruled by the committee.

*Quinn v. United States* (203 F. 2d 20) ; *Bart v. United States* (203 F. 2d 45) ; *Emspak v. United States* (203 F. 2d 54, cert. granted 346 U. S. 809).

In other words, a witness who objects to supplying the evidence required of him is entitled to a clear ruling on his objections from the committee before he can be held in contempt.

Mr. Traub has raised very fundamental objections to the subpoenas served upon him by the committee. He contends that they violate his constitutional rights, invade the attorney-client privilege, and call for material not relevant to any legislative inquiry. He is entitled, under the decisions cited above, to a ruling by this committee on these objections.

It is respectfully submitted that the power to take testimony does not embrace the power to rule on these objections; that under the Legislative Reorganization Act of 1946, only a full quorum of the committee, consisting of not less than one-third of its membership, can rule on these objections; that Mr. Traub is entitled to have the serious objections he raises to this committee's subpoenas considered by a representative number of the committee members and not simply by one Senator.

It seems to Mr. Traub and his counsel that if the committee were fully apprized of what its staff were doing, that it would not permit the sweeping subpoenas which have been issued and which are invalid and improper for so many reasons. If the committee disagrees with Mr. Traub, he will then have to consider whether he will abide by the committee's decision or run the risk of a contempt citation. Before he makes that decision, however, he is entitled to know that his objections have been considered, and passed on by the committee.

It is respectfully submitted that Senator Capehart is not empowered, sitting as a committee of one, to pass upon Mr. Traub's objections to the subpoenas. Senator Beall agreed with this position at the previous hearing held in connection with the subpoena addressed to Mr. Traub. He agreed that Mr. Traub's objections should be referred to the full committee for ruling.

We are sure that Senator Capehart would not wish to review or overrule the position previously taken by Senator Beall. We think that this position is the correct one and that the objections raised by Mr. Traub to these subpoenas should be referred to the full committee for ruling.

*B. A quorum of one is not empowered to receive books, records or other writings*

As pointed out earlier herein, the only purpose for which a lesser number than one-third constitute a quorum of the committee under the Legislative Reorganization Act of 1946 is for the "purpose of taking sworn testimony."

The taking of sworn testimony, however, does not embrace the power to compel the production of correspondence, books, papers and documents and to sequester such books. The distinction between the taking of sworn testimony and the production and sequestration of correspondence, books, papers and documents is clearly shown by another section of the Legislative Reorganization Act of 1946 which clearly distinguishes between the two by authorizing separately and independently the power to require the attendance of witnesses and the power to require the production of correspondence, books, papers and documents (sec. 134 (a)).

While the committee has both powers, the right of a quorum of one is limited to the latter—the taking of sworn testimony.

This was the very point raised before Senator Beall which Senator Beall recognized. Senator Beall stated that—

"I don't feel as if I, sitting as a committee of one, should insist that these records be kept here. I don't think it is the intention of the committee. The intention of the committee is to take testimony, and I feel as if I am going beyond any responsibility in insisting that the records be kept here (Transcript of Sept. 7, 1954, p. 10637).

We believe that the ruling of Senator Beall, refusing to insist that the records be received in evidence, that he would not sequester the books and that Mr. Traub's objections must be passed upon by the committee, was not only statesmanship of a high order, but was also compelled by the clear language of the Legislative Reorganization Act. We think the same conclusion should be reached by Senator Capehart; that sitting as a quorum of one, he cannot insist upon the production of Mr. Traub's books and records.

It is respectfully submitted for all the reasons herein set forth that the subpoenas are invalid: that their enforcement would constitute an invasion of Mr. Traub's constitutional rights; and that in any event, the objections raised must be ruled upon by a lawful quorum of the committee that no other single Senator should, or can, overrule Senator Beall and that no single Senator may cause the production and sequestration of the said books.

Respectfully submitted.

Dated: September 25, 1954.

MILTON C. WEISMAN,  
*Attorney for Abraham Traub.*

Mr. SIMON. May we put in the committee rules for this committee's investigation?

The CHAIRMAN. We will also place in the record the rules for procedure of Senate Banking and Currency Committee adopted in executive session on July 21, 1954. Would you like to take the time to read those rules?

Mr. WEISMAN. Yes. May I have a moment's time to read them?

The CHAIRMAN. We will give you sufficient time to read them right now.

Mr. SIMON. Mr. Traub, while Mr. Weisman—

Mr. WEISMAN. I can't read them—

The CHAIRMAN. Let him read without further asking any questions.

Mr. SIMON. That is the one that relates to this situation?

The CHAIRMAN. I think as a matter of record I shall read the rules and regulations:

Rules of procedure for Senate Banking and Currency Committee adopted in executive session July 21, 1954.

*Resolved*, by the Committee on Banking and Currency of the United States Senate that the following rules governing the procedure of the committee are hereby adopted:

1. A subcommittee of the committee may be authorized only by the action of a majority of the full committee.
2. Unless the committee otherwise provides, one member shall constitute a quorum for the receipt of evidence, the swearing of witnesses and the taking of testimony and the chairman of the committee or subcommittee may issue subpoenas.
3. No investigation shall be initiated unless the Senate or the full committee has specifically authorized such investigation.
4. No hearing of the committee or a subcommittee shall be scheduled outside of the District of Columbia except by the majority vote of the committee or subcommittee.
5. No confidential testimony taken or confidential material presented at an executive hearing of the committee or a subcommittee or any report of the proceedings of such an executive hearing shall be made public, either in whole or in part or by way of summary, unless authorized by the committee or subcommittee.
6. Any witness subpoenaed to a public or executive hearing may be accompanied by counsel of his own choosing who shall be permitted, while the witness is testifying, to advise him of his legal rights.
7. If the committee or a subcommittee is unable to meet because of the failure or inability of its chairman to call a meeting, or for any other reason, the next senior

majority member of the committee or the subcommittee, who is able to act, shall call a meeting of the committee or the subcommittee within 15 days after the receipt by the Secretary of the Senate of a written request, stating the purpose of such a meeting, from a majority of the members of the committee or the subcommittee.

8. Committee or subcommittee interrogation of witnesses shall be conducted only by members and staff personnel authorized by the chairman of the committee or subcommittee concerned.

Mr. WEISMAN. Senator, since you have made those rules a part of the record, I know that those rules have been adopted by your honorable committee, pursuant to the Legislative Reorganization Act of 1946. The Legislative Reorganization Act of 1946, by subdivision D of article III, as contrasted with the subsequent article, clearly shows that this subcommittee can take testimony.

The CHAIRMAN. Will you yield, please? This is not a subcommittee. This is a full committee.

Mr. WEISMAN. Is there a quorum here? I understood a quorum is five.

Mr. SIMON. A quorum is one.

The CHAIRMAN. I just read that rule.

Mr. WEISMAN. A quorum is one for the taking of testimony. May I read the Legislative Reorganization Act to you, Senator, and may I have it made part of the record? This Legislative Reorganization Act of 1946, pursuant to which this committee is proceeding, in accordance with the law, duly enacted with regard thereto, states, in subdivision B:

Each standing committee and each subcommittee of any such committee, is authorized to fix a lesser number than one-third of its entire membership, who shall constitute a quorum thereof.

Now here is the milk of the coconut. That isn't in the act.

For the purpose of taking sworn testimony.

I submit that under that alone, if I couldn't buttress it with a subsequent part of the act, a subcommittee is not authorized to issue subpoenas, it is not authorized to take books, it is not authorized to sequester books as this committee is here and now seeking to do.

If I needed any further authority, which I am sure you will find, you will find the differentiation between what the subcommittee can do so constituted, and the full committee, in section 134, which sets forth the committee's powers.

The committee's powers go far beyond that of taking sworn testimony and reading from section 134 (a), it says—

Each standing committee of the Senate, including any subcommittee of such committee, is authorized to hold such hearings; to sit and act at such times and places during the sessions, recesses, and adjourned periods of the Senate, to require by subpoena or otherwise the attendance of such witnesses and the production of such correspondence, books, papers, and documents, to take such testimony and to make such expenditures—

and so forth, and I clearly point out to you the difference between the two sections.

Mr. SIMON. That is exactly what is happening here. This is the full committee, which has directed by unanimous regulation that a quorum would consist of one member.

The CHAIRMAN. Were you under the impression this was a subcommittee?

Mr. WEISMAN. No. Of course not, Senator.

The CHAIRMAN. This is a full committee.

Mr. WEISMAN. This is a full committee, but I am not only under the impression, but I do argue that where you have a committee of less than a quorum, which constitutes a third of the committee, that committee may only take testimony. That committee, with all due humility, is not competent to pass upon any legal or constitutional objections that may be raised.

As a constitutional safeguard, as a statutory safeguard, I, as a lawyer, say that the Reorganization Act of 1946 particularly provides that in such a case we are entitled to the benefit and the deliberation and the statesmanship of the entire committee, or at least a quorum thereof, and that is borne out by the law, which I have just read to your committee.

The CHAIRMAN. Let me read No. 2 of the Rules of Procedure for Senate Banking and Currency Committee:

2. Unless the committee otherwise provides, one member shall constitute a quorum for the receipt of evidence, the swearing of witnesses and the taking of testimony and the chairman of the committee or subcommittee may issue subpoenas.

Mr. WEISMAN. The point I make——

The CHAIRMAN. Is your position that the committee had no right to make that rule?

Mr. WEISMAN. I say it isn't my position. It is the statement of the law which I just read to you. I don't think this committee can go——

The CHAIRMAN. What authority do you think this committee you are looking at has?

Mr. WEISMAN. I think that this committee has the power—Senator Bush asked me; I am sorry that I am limping. I had an accident which I will soon recover from. This is the first one I read. I marked it here. This is the second, to show you the difference.

The CHAIRMAN. What authority do you think the committee has that you are looking at? This is a standing committee, the full Senate Banking and Currency Committee.

Mr. WEISMAN. I believe that if there is a quorum present, which I fear is not, it would have full and complete powers, as set forth in the act.

The CHAIRMAN. In other words, your position is that if there were a quorum of this committee present at the moment they would have the authority to do what I have asked as chairman of this committee, have asked your client to do?

Mr. WEISMAN. I would say they could then rule on the matter.

The CHAIRMAN. Let me say this to you: We will have a full quorum of this committee in Washington on November 8, and I am not ruling on this at the moment. I am just reminding you that the best you can do is, by your suggestion, to delay your client's producing these records until November 8. That is the best you can do. I am not ruling that way yet. I am saying that is the best you can do.

Mr. WEISMAN. Senator, I want you to know, when you were kind enough to send me a copy of that letter I prepared a 50-page brief and I burned much midnight oil; I went to the Supreme Court and I think that I can convince the committee that they shouldn't go beyond what we have already given them.

Senator BUSH. Mr. Chairman, may I say this: I cannot understand what Mr. Weisman is talking about because he has just read from section 134 of the act and the title is "Committee Powers."

Now I want to read this again, because the committee is acting within the powers that you have just read, which is right here. It says this:

Each standing committee of the Senate, including any subcommittee of any such committee, is authorized to hold such hearings, to sit and act at such times and places during the sessions, recesses, and adjourned periods of the Senate, to require by subpoena or otherwise the attendance of such witnesses and the production of such correspondence, books, papers, and documents \* \* \*.

Mr. WEISMAN. I have just said that.

Senator BUSH. What is your objection?

Mr. WEISMAN. The point that I make, Senator Bush, is that the committee as such is differentiated from a subcommittee.

Senator BUSH. It is no subcommittee. The Senator told you that. This is a full committee.

Mr. WEISMAN. If this is a full committee, if I can count to four, I see no quorum here.

Senator BUSH. You read from another section of the act yourself:

Each standing committee of the Senate, including any subcommittee of any such committee, is authorized to fix a lesser number than one-third of its entire membership \* \* \*.

Mr. WEISMAN. "For the purpose of taking sworn testimony."

Senator BUSH. "Who shall constitute a quorum thereof for the purpose of taking sworn testimony."

Mr. WEISMAN. No. I think that is my point. And you have made it better than I did.

Senator BUSH. No; I did not make it at all. The committee powers are clearly defined in the act.

Mr. WEISMAN. The committee powers are clearly defined but when the committee sits by less than a duly constituted quorum, it may only sit according to what you have just read for the purpose of taking testimony.

The CHAIRMAN. I want to again say to you, Mr. Weisman—and I have not ruled on this and what I am just about ready to say—

Mr. WEISMAN. You shouldn't rule until you have read my brief.

The CHAIRMAN. That is right.

The point is, even though I should rule that you are right, you are not going to avoid appearing before the full committee.

Mr. WEISMAN. I will welcome the opportunity to present my arguments before the full committee. That is what I want.

The CHAIRMAN. You will not avoid appearing before the full committee. I will assure you that. The best you can do is to delay your case until November 8 because on November 8 I will have a full committee and you will be present.

Mr. WEISMAN. I assume they will give me an openminded, respectful, statesmanlike hearing, and pass upon the objections.

The CHAIRMAN. Why are you objecting to turning over to this committee your books and records?

Mr. WEISMAN. I will be very glad to tell you. I must tell you the background of this, Senator.

I don't want you to think we have kept our books and records away.

Mr. SIMON. You have.

The CHAIRMAN. You have so far.

Mr. WEISMAN. That is not so.

Mr. SIMON. Yes it is.

Mr. WEISMAN. If I say to six people, "Come in and look at these books, take off a hundred pages of anything that you think is important; this is a copy." They have copied our books from alpha to zeta, and I say merely, put us in a position so we cannot be charged with violating our obligation to our other clients, that we have not violated the confidential communication rule existing between attorney and clients.

They come in with six men; they sit in my office with all of these books. They take transcripts and abstracts, and then to say we haven't gotten the books.

They then issue a dragnet, willy-nilly subpoena that says, "Give us everything that this firm did, the name of every client, why he paid you," even though it has no relation of any kind, nature, or description to FHA, and I say, as a lawyer, pursuant to the law of this land, as laid down by the Supreme Court of the United States, that that subpoena constitutes a willful violation of our freedom from unlawful search and seizure.

I furthermore believe that is something that this committee doesn't want. I know the personnel of this committee. This committee is going to conduct itself according to the law of the land, and not tear it up. The Supreme Court——

The CHAIRMAN. Let me say this: All we want to know is to whom and for what purpose these checks that are made out to cash were paid—period.

Mr. WEISMAN. Senator Capehart——

The CHAIRMAN. If you will give us that information——

Mr. WEISMAN. May I read——

The CHAIRMAN. So far you failed to do that.

Mr. WEISMAN. That is not so, sir. You believe it, but let me show you the arrangement I entered into in pursuance of which I turned these books over to your committee.

I want to read it to you.

Mr. SIMON. Let me say to you, as you just said, you made the arrangement. The committee didn't.

Mr. WEISMAN. Let me tell you——

The CHAIRMAN. Let's find out——

Mr. WEISMAN. I want all the Senators to know.

The CHAIRMAN. Mr. Weisman says that he has turned these books over to us. Now what are the facts, Mr. Counsel?

Mr. WEISMAN. May I say the facts?

The CHAIRMAN. Wait a minute. I want to get the facts from our counsel. He understands it. Then I will get it from you as you understand it.

Mr. SIMON. The facts are that pursuant to a subpoena issued well over a month ago we were permitted to send people into Mr. Weisman's office, who were permitted to look at certain books, which were not all the books, and their limitations were that they could look at them only in the presence of Mr. Weisman's auditor and only if they agreed to give Mr. Weisman a photostatic copy of every note they made. That proved——

The CHAIRMAN. At certain hours?

Mr. SIMON. The hours were reasonably flexible.

Mr. WEISMAN. They worked until 10 and 12 o'clock, Senator. I made every possible—

Mr. SIMON. They were not permitted to make the slightest note of what they found on the books without giving a copy of it to Mr. Weisman. Then we had a hearing—

The CHAIRMAN. Why did you want that information when you owned the books? You have the books. You ought to know everything that is in the books without requiring our people to give you a copy, or an abstract of what they find in your books.

Mr. WEISMAN. I will be pleased to explain that to the Senator.

Mr. SIMON knew about this because this arrangement was made after his investigator telephoned.

The CHAIRMAN. Telephoned to whom?

Mr. WEISMAN. To Mr. Simon.

Mr. SIMON. I started to give him the history.

The CHAIRMAN. Had you finished?

Mr. SIMON. No, sir.

The CHAIRMAN. Will you proceed?

Mr. SIMON. Because that arrangement proved most unsatisfactory, Mr. Traub was asked to come in here, in public hearing, when the committee was in New York a month ago. Senator Bush ordered him to produce his books on a Friday morning, and neither he nor his books were here on the morning that he was ordered to appear.

Subsequently, he was served with a subpoena to produce the books in Washington at an executive session, the day after Labor Day, at which Senator Beall presided. At that time Mr. Weisman made a lengthy argument that we should again try to examine the books in his office.

Senator Beall concurred, and said they could take them back and we would examine them in his office, but nothing was said about their having the right to get a photostatic copy of everything that we copied.

We went back to their office, and we were denied the right to look at the books unless we agreed to give them a photostatic copy of everything we took off the books.

We declined to do that, and we have since been denied access to the books.

Mr. WEISMAN. May I respond?

The CHAIRMAN. Substantially is that a true statement?

Mr. WEISMAN. I don't want to—I would rather like to tell you—

The CHAIRMAN. Tell us wherein the statement that Mr. Simon just made is not according to your understanding.

Mr. WEISMAN. According to my understanding, let me say this—

The CHAIRMAN. I mean the points that are not according to your understanding, and we can save time.

Mr. WEISMAN. May I have your indulgence to give you and the other Senators present my story with relation to the statement that Mr. Simon has just made? I think only so can this fairly be told.

The CHAIRMAN. Will you yield one moment?

Mr. WEISMAN. Yes.

The CHAIRMAN. I might ask you a few questions. Did you refuse to permit them to take any information from your books unless they gave you a photostatic copy?

Mr. WEISMAN. Ultimately, yes.

The CHAIRMAN. And you required that they look at the books in your presence?

Mr. WEISMAN. Not in my presence; in the presence of the accountant.

The CHAIRMAN. In the presence of an accountant?

Mr. WEISMAN. Now may I proceed? I want to read the stipulation, pursuant to which an exact copy was made of all of these books and I think——

Mr. SIMON. Now——

Mr. WEISMAN. I restrain myself from interrupting you both because I think it is good practice and good courtesy.

I made notes, if I found something I didn't like, or thought you were in error and I would ask the same courtesy of you.

I want to make a statement to the Senators.

Mr. SIMON. I shan't interrupt, but I was hoping, in making the statement you would explain why Mr. Traub wasn't here on that Friday morning.

Mr. WEISMAN. I have made a note of that.

The CHAIRMAN. Let's get that now. That interests me very much. I wasn't here. Why didn't Mr. Traub and yourself show up on Friday morning in respect to Senator Bush's subpoena?

Mr. WEISMAN. That was not so.

The CHAIRMAN. Not a subpoena; oral request.

Mr. WEISMAN. I will answer for myself.

Leaving here, I slipped and was on crutches for 5 days and couldn't leave my house. I didn't slip on purpose, so that is why I wasn't here.

Notwithstanding that——

The CHAIRMAN. What about your client?

Mr. WEISMAN. My client, as near as I could see, Senator Bush did not order my client here. I have the record here. If I read English, it said in the record:

Mr. Traub, unless you produce these books, we will issue a subpoena.

I am Mr. Traub's lawyer, and I think the only proper and orderly thing was to have these books and your right to have them as your staff wants them. You Senators don't want these books in this fashion. I say this in an overreaching of your staff, and I said to my client, Mr. Traub, "Let them serve a subpoena. That is the proper thing. Senator Bush is perfectly right and when we get the subpoena we will testify."

Now may I go back and make my general statement?

Mr. SIMON. Except I don't want the record to state by my silence what you just said it states because you have not stated the record.

Mr. WEISMAN. The best proof of what the record says is the record. I have it here. I will read it.

Mr. SIMON. Precisely.

Mr. WEISMAN. Get me Senator Bush's statement. I want the Senators to know I think there has been too much of this innuendo, this feeling of Traub not cooperating, et cetera.

Early in October, a gentleman by the name of McManus, who sits there, came to my office with a subpoena in his hand and he said, "I am going to serve this subpoena unless you let us see the books."

I had Traub there for the service of the subpoena. I said, "Mr. McManus, there are the books. Here is Mr. Traub. Give us the subpoena."

He says, "No, if I can look at the books I am not going to serve the subpoena," and he didn't.

He came to my office. We gave him the books—not certain of the books—all the books, Senator, and we said to him, "Look, Mr. Traub is a lawyer. These books can control much information which he is in duty and law bound not to divulge willy-nilly. What is your interest in that matter?"

He says—I don't mean he passed judgment—he says, "I understand your argument. All we want to do is look at the books as they apply to Farragut Gardens."

I said, "That is fine. I will send for my accountant, and I will go further. You may look at any items in the books that doesn't apply to Farragut Gardens if you, in good faith, think it will be necessary to trace it down."

The Senator knows that. I said, "I don't want to mask out anything and I will take your word. You will be the judge of your own good faith."

He then said to me, and on that—I will come back to Senator Bush's statement which I have before me—on that he came in with another gentleman. We made him comfortable. We helped him, in good faith. I wasn't there. I had other business to attend to.

I sent for my own personal accountant, who understands books of a law office, which runs somewhat different from books of a mercantile concern or a manufacturing company, and I said, "Help him to whatever extent you can."

Subsequently he came in to me and he says, "Washington has asked me to extend the scope of this examination, not alone to Farragut Gardens, but to any FHA matter."

Subsequently I said, "I would like to clear that with Washington."

Subsequently a gentleman by the name of Mr. Cook came in to see me and he said, "Look, we want to extend this examination still further."

I thereupon explained to him as a lawyer; I never handled an FHA matter in my life. I am brought into this matter as a lawyer's lawyer by the dilemma my client found himself in, and I said, "Let's see if we can't come to an understanding. We want to cooperate and we want to help you," and I wrote out—we called in a stenographer and I dictated the terms of our agreement and we agreed on this. I said, "Wait a minute."

The CHAIRMAN. Who was "we"?

Mr. WEISMAN. Mr. Cook and I.

I said, "Wait a minute, Mr. Cook. I as a lawyer, I am older than you. I don't want you to get in wrong. I want you to call up Washington and clear this and see if this is satisfactory," and this is the stipulation that we entered into.

The CHAIRMAN. If you will yield one moment. You understand, in investigations such as this, that while we may at the moment say we are only interested in Farragut Gardens, and maybe tomorrow we are interested in something else, but as we proceed with our investigation and uncover new evidence, of course then we always, and naturally, must broaden the scope.

Now we have come to the conclusion in this case, since it has been impossible for us to secure from your books—and we have had access

to them under certain conditions that you describe, and from your client himself and from the two bookkeepers—since we cannot ascertain who got and why these large sums of cash payments, we came to the conclusion that we ought to be permitted to see and completely audit all the books.

Furthermore, we came to that conclusion by virtue of the fact that your client himself admits—and your bookkeepers both admit—that they are really not a good set of books; that they didn't particularly know what they were doing, and for that reason, we think that we ought to take the records and put them in the hands of competent GAO auditors and find out exactly what the facts are.

Let me say this to you: When we get all through, we will tell the public exactly what the facts are, and if we find a complete, 100 per cent explanation for all these items, we will so state.

Mr. SIMON. May I ask Mr. Traub a question on this matter before we go on?

Mr. WEISMAN. Let me finish my statement.

The CHAIRMAN. Let him ask the question.

Mr. SIMON. Where were you, Mr. Traub, on the night of September 23?

Mr. WEISMAN. I object to that.

Mr. SIMON. You said a minute ago that you had been cooperating with us completely.

Mr. WEISMAN. Yes, sir.

Mr. SIMON. I would like to ask him where he was.

Mr. WEISMAN. In the middle of my statement?

Mr. SIMON. Where were you on that night, between the Thursday when you testified here and the Friday morning when Senator Bush asked you to come back?

Mr. TRAUB. You can ask him that question when I finish.

The CHAIRMAN. You may proceed.

Mr. WEISMAN. I don't want to get in that kind of a travesty.

This was the stipulation that if I heard correctly—I have sharp ears—if I heard correctly I am going to insist, Mr. Simon, that you ask that question, and I will insist on an apology from you if I heard correctly what you said to the Senator which was most insulting to me.

Mr. SIMON. You have no concern with—

The CHAIRMAN. I will tell you what he said and I think it is the truth. He said you would talk all day. Is there anything wrong with that? What is insulting about that?

Mr. WEISMAN. Because I don't talk all day.

The CHAIRMAN. That is the best recommendation a lawyer could have that he could talk all day.

Mr. WEISMAN. I don't talk all day.

The CHAIRMAN. All he said, that you would talk all day.

Mr. WEISMAN. Well, I don't think that is a very fair statement.

The CHAIRMAN. If that is insulting I shall apologize to you.

Mr. WEISMAN. No; I don't want any apology from the Senator.

I want the Senators to know the terms under which these books were made completely available to the men from the General Accounting Office. The terms of the stipulation that we entered into were as follows:

Without regard to the various claims by each party as to what was the proper scope of the examination of Mr. Traub's books, your committee now takes the

position that the scope of the books shall be with relation to Farragut Gardens or any other FHA project with relation to which Traub was the lawyer or had an interest.

The CHAIRMAN. You can't object to that, can you?

Mr. WEISMAN. This is what I agreed to. This is the terms under which they made the examination:

For the foregoing purpose, specifically excluding anything in the said books which does not relate to the foregoing, the books are to be made fully available to you by Traub.

Did the Senator hear that last?

The CHAIRMAN. Yes; I did.

Mr. WEISMAN. That—

for the purposes aforesaid they were made fully available to you. Before your examiners leave all notations made by them from the books will be exhibited to us so that we will be in position to testify if called upon that no information has been taken therefrom with relation to other clients or their private matters.

The CHAIRMAN. We can shorten this whole business up now. We are not going to do that, and I don't know what my ruling is going to be, but that is one thing we will never agree to, because it won't work. It never has worked. It won't work. There is no reason in the world why we investigating you should tell you exactly what we found wrong about you—

Mr. WEISMAN. I didn't ask you your conclusions. I asked for a copy of the facts. I didn't want your conclusions, Senator. I assume that, and I say this with the greatest of humility, that this committee—

The CHAIRMAN. I think the whole problem revolves itself around whether or not our investigators in going over your books must give to you and call to your attention every little irregularity that they found.

Mr. WEISMAN. No.

The CHAIRMAN. That is what it amounts to.

Mr. WEISMAN. It doesn't amount to that at all because, Senator, last time they copied our books almost verbatim. There is a hundred pages. They took off every item here. We permitted them to copy it. They were examined Friday.

The CHAIRMAN. I don't want to interrupt you, but you know exactly what is in your books. Why should we tell you what is in your books?

Mr. WEISMAN. I don't want to have you tell me what is in my books. I want to be in a position to protect Mr. Traub from the charge that there was taken from his books information which you gentlemen, with all due respect under our constitutional form of government, have no right to take. We are seeking to cooperate within the framework of the law.

Mr. SIMON. Thus far, Mr. Weisman, we haven't even seen all the books.

Mr. WEISMAN. You have every book—you have an inventory of the books. They were made available to you.

Mr. SIMON. We had two ladies testify this morning to the existence of books which no member of our staff has ever seen.

Mr. WEISMAN. I don't think that is correct because the inventory—and I am sure you are just as careful as I am—the inventory contains

the book you referred to. The inventory referred to a customer's ledger or, excuse me, a client's ledger.

Mr. SIMON. I am not talking about inventories. This first girl testified there was a ledger sheet for each of the properties with these items posted prior to 1949. Mr. Traub himself says he doesn't know where that book is.

Mr. WEISMAN. Mr. Traub has told you, we have told you that from 1949, prior thereto, we have no books and the subpoena can't produce that which isn't existent, and I also point out that any subpoena that must be issued must be issued so as to constitute due process. I am sure the Senator hasn't had an opportunity to read my brief, but I hope you have.

Mr. SIMON. I have and he has read most of it; or at least parts of it.

Mr. WEISMAN. I don't know what that means, parts of it. That is a rather ephemeral statement. I think this raises a very serious question insofar as my client is concerned. We want to cooperate. You didn't have to have this delay. Your men could have come in there. I want to say, Senator, that they shouldn't be delayed for 2 days; while I was sick and couldn't get in touch with Washington I let them run the gamut as they pleased. I didn't want to delay them if they changed their mind. All we wanted to do was say we were in a position to turn over these books, pursuant to constitutional laws, pursuant to the laws of the State of New York and with due regard to our client's duties and obligations.

We have a twofold duty, one to aid this committee in its legislative duty and the other to protect our clients, as we swore to do when admitted to practice law in New York State.

Mr. SIMON. We have investigated over 200 projects since this investigation started and I have had the responsibility for the staff investigation and from the first day we have had more trouble with Mr. Traub and his books than any other six projects in the United States, and that stems from the day in June when I came up here to see Mr. Traub. We have never received a single piece of paper without pulling for it.

The CHAIRMAN. Let me say this: Mr. Traub just testified here not over 40 minutes ago that he borrowed money and loaned it to his client to put them in the real-estate business, or in the building business, I believe you testified.

Mr. TRAUB. I said real-estate business, not building.

The CHAIRMAN. Real-estate business. Therefore, you didn't say whether it was buildings or FHA.

Mr. TRAUB. It had nothing to do with FHA. It was long before the FHA. I started off in 1943.

Mr. WEISMAN. That I may not leave the record incomplete and so I may not be charged with having erroneously reported Senator Bush's ruling, I am reading from page 2861 of the record, in which he says:

Now the process that your counsel—  
meaning that you would come to our office—

has suggested has been tried and found unsatisfactory. For that reason, I shall have to rule that we will subpoena these books, and we want them by 10 o'clock tomorrow morning.

Then he says later on :

The only way it appears feasible to do it is to subpoena these books and have them.

Mr. SIMON. Now, Mr. Traub, where were you that night? That was the night of August 26. You left here about 2 o'clock in the afternoon. Where were you that night?

Mr. TRAUB. Mr. Simon, have you ever been sitting on this side being questioned? I have never had an experience that I had being questioned—

Mr. SIMON. My question is: Where were you?

Mr. TRAUB. I would like to answer it in my fashion.

Mr. SIMON. My question is: Where were you?

Mr. TRAUB. I am coming to that.

Mr. SIMON. All I asked you is, Where were you?

Mr. TRAUB. Senator, may I give my explanation?

The CHAIRMAN. Yes. Just tell us where you were, please.

Mr. TRAUB. Senator, I have never in my experience had the experience that I went through with Mr. Simon's questioning for 2 solid days—for 1 complete morning, and then the next day. When I got through with this I told Mr. Weisman that I had a matter to take care of and I was going away and I didn't want to get near that office until next Monday. That is just what I did do. I went—

Mr. SIMON. I want—

Mr. TRAUB. I will tell you where I went to the detail if you want it.

Mr. SIMON. You heard Senator Bush say the books were to be subpoenaed for 10 o'clock Friday morning?

Mr. TRAUB. He did not say they were to be subpoenaed for 10 o'clock.

Mr. SIMON. Let Mr. Weisman read what he just read. It is very clear.

Mr. WEISMAN. He said:

For that reason, I will have to rule that we will subpoena these books and we want them by 10 o'clock tomorrow morning.

Mr. SIMON. We want them by 10 o'clock tomorrow morning. We had a man sitting on your front door step all evening and most of the night and you never came home.

Mr. TRAUB. I came home 10 o'clock the next morning. I walked in and there was nobody there.

Mr. SIMON. At your home?

Mr. TRAUB. Yes.

Mr. SIMON. Our men were back at the hearing.

Mr. TRAUB. You didn't let me finish. After I got through with that I went to the Turkish bath and got up the next morning and went home. I did not go to the office.

Mr. SIMON. You knew we had somebody out trying to serve a subpoena?

Mr. TRAUB. No.

Mr. SIMON. Didn't you hear Senator Bush tell you we wanted them by 10 o'clock the next morning?

Mr. TRAUB. I heard that.

Mr. WEISMAN. We had them right here. He didn't have to subpoena them.

The CHAIRMAN. Mr. Traub is an attorney, has been an attorney for many years. Senator Bush said we wanted the records for 10

o'clock the next morning and we will subpoena them. I think it is the responsibility and duty of a lawyer to cooperate, and attorneys know rules and regulations. I am sure Mr. Traub knew what Senator Bush was talking about. He proceeded to walk out of here and hide himself until 10 o'clock the next morning.

Mr. WEISMAN. He did not hide himself.

Mr. TRAUB. I did not.

The CHAIRMAN. We were unable to serve a subpoena.

Mr. SIMON. Did your wife know where you were?

Mr. TRAUB. My wife didn't know where I was until 12:30 or 1 o'clock.

The CHAIRMAN. Will you proceed, Mr. Weisman?

Mr. SIMON. Mr. Traub—

The CHAIRMAN. Mr. Weisman may proceed.

Mr. WEISMAN. I think I have finished, except I think for the purpose of the record being complete, so that I may at any subsequent time demonstrate what I deem the complete invalidity of these subpoenas, in line with the plain decisions and intradiction of the Supreme Court, I would like to offer our copies of the two subpoenas in evidence.

The CHAIRMAN. You may proceed.

Mr. WEISMAN. I said that in view of the fact that these papers have been offered in evidence, and in view of the plain language of the United States Supreme Court showing the invalidity of subpoenas in such form, I want these two subpoenas to be marked as part of the record.

The CHAIRMAN. Without objection, they will be made a part of the record.

(The information referred to follows:)

UNITED STATES OF AMERICA

CONGRESS OF THE UNITED STATES

To Abraham Traub, 1620 Avenue I, Brooklyn, New York (residence); 16 Court Street, Brooklyn N. Y. (office); Greetings:

Pursuant to lawful authority, you are hereby commanded to appear before the Senate Committee on Banking and Currency of the Senate of the United States, on Tuesday, September 7, 1954, at 1 o'clock p. m., at their committee room, room F-41, United States Capitol, Washington, D. C., then and there to testify what you may know relative to the subject matters under consideration by said committee, and to produce the originals of all books, records and other writings (or in the absence thereof, true and correct copies of same) in your custody or control, which are specified in the appendix hereto attached and which is hereby made a part hereof:

Hereof fail not, as you will answer your default under the pains and penalties in such cases made and provided.

To William E. Smith, United States Marshal, to serve and return.

Given under my hand, by order of the committee, this 28th day of August, in the year of our Lord one thousand nine hundred and fifty-four.

HOMER W. CAPENHART,

*Chairman, Committee on Banking and Currency.*

Upon presentation of voucher you will be reimbursed \$9 per diem while en route and while testifying, plus first-class railroad fare and pullman berth, or plane fare, or 7 cents per mile if travel is by car.

APPENDIX

All books and records reflecting or relating to any and all payments received and disbursements made to and by you or to and by the firm of Dreyer & Traub during the period of January 1, 1948, to date, including the cash receipts and dis-

bursements books, the general ledgers and all other ledgers, and all supporting documents such as invoices receivable and invoices payable and any and all other books, records, and correspondence identifying the names of clients for whose accounts such payments were received or disbursed, as well as the nature or purpose of such payments; all bank statements of the firm of Dreyer & Traub as well as canceled checks, checkbook stubs, for the period of January 1, 1948, to date, including but not limited to the books and records reciting or reflecting payments from, disbursements made to, and receipts and disbursements relating to:

Alfred Kaskel.  
P. M. Lipstein  
Morris Kavy  
Punia & Marx  
Alexander P. Hirsch  
Henry Hirsch  
Phillip Schoenfeld

for the period of January 1, 1948, to date, and including but not limited to payments from, disbursements made to and receipts and disbursements relating to the following named corporations and/or projects and/or individuals, officials, employees and shareholders connected with said corporations or projects:

|  |  |
|--|--|
| Selgate Realty Corp.                     | Aero Gardens                             |
| Coral Management Corp.                   | Boulevard Gardens                        |
| Davenport Arms                           | Anita Apartments                         |
| Chartone Garden Apartments               | Howard Gardens                           |
| Lizel Holding Co.                        | Mansfield Gardens                        |
| Forest Drive Apartments                  | Quality Gardens                          |
| Austin Street Construction Corp.         | Cedar Gardens                            |
| Fieldstone Gardens (Netherlands Gardens) | Forest Hills Village                     |
| Sundown Gardens                          | Forest Hills Gardens                     |
| Congress Gardens                         | Greystone Gardens                        |
| Ridge Terrace                            | Barnes Gardens                           |
| Maplewood Housing                        | Lanson Gardens                           |
| Shore View Gardens                       | Roder Gardens                            |
| Parkville Gardens                        | Ruskin Gardens                           |
| The Sheridan                             | Farragut Gardens No. 1, Inc.             |
| The Fulton                               | Farragut Gardens No. 2, Inc.             |
| American Park Section No. 1              | Farragut Gardens No. 3, Inc.             |
| Colony Terrace                           | Farragut Gardens No. 4, Inc.             |
| The Roosevelt                            | Farragut Gardens No. 5, Inc.             |
| Montgomery House                         | Queens College Gardens                   |
| The Jamestown                            | Grand Central Apartments, Section I      |
| Olinville Terrace                        | Grand Central Apartments, Section II     |
| Bay Parkway Apartments                   | Woodcliff Gardens, Inc., Section I       |
| First Woodhaven Housing                  | Woodcliff Gardens, Inc., Section II      |
| Second Woodhaven Housing                 | Larchmont Gardens                        |
| Third Woodhaven Housing                  | Dara Gardens                             |
| The Hamilton                             | The Normandie                            |
| Lana Gardens                             | Brearwood Gardens Apartments, Section IV |
| Lincoln Cooperative                      | Blossom Gardens                          |
| Regent Gardens                           | Briarwood Gardens, Section I             |
| Bay Shore Gardens                        | Briarwood Gardens, Section II            |
| Pelway Gardens                           | Troy Gardens                             |
| Albert Apartments                        | Rego Terrace                             |
| Oliver Gardens                           | Rego Gardens                             |

UNITED STATES OF AMERICA

CONGRESS OF THE UNITED STATES

To Abraham Traub (office), 16 Court Street, Brooklyn, N. Y. (home) 1620 Avenue I, Brooklyn, N. Y., greeting:

Pursuant to lawful authority, you are hereby commanded to appear before the Committee on Banking and Currency of the Senate of the United States, on Monday, September 27, 1954, at 10 o'clock a. m., at their committee room, north ballroom, Hotel Astor, eighth floor, 45th Street entrance, New York, N. Y.,

then and there to testify what you may know relative to the subject matters under consideration by said committee, and to produce the originals of all books, records, and other writings (or in the absence thereof, true and correct copies of same) in your custody or control, which are specified in the appendix attached hereto and which is hereby made a part hereof:

Hereof fail not, as you will answer your default under the pains and penalties in such cases made and provided.

To William E. Smith, United States marshal, to serve and return.

Given under my hand, by order of the committee, this 15th day of September, in the year of our Lord one thousand nine hundred and fifty-four.

HOMER E. CAPEHART,  
*Chairman, Committee on Banking and Currency.*

Upon presentation of voucher you will be reimbursed \$9 per diem while en route and while testifying, plus first-class railroad fare and pullman berth, or plane fare, or 7 cents per mile if travel is by car.

#### APPENDIX

All books and records reflecting or relating to any and all payments received and disbursements made to and by you or to and by the firm of Dreyer & Traub during the period of January 1, 1948, to date, including the cash receipts and disbursements books, the general ledgers and all other ledgers, and all supporting documents such as invoices receivable and invoices payable and any and all other books, records, and correspondence identifying the names of clients for whose accounts such payments were received or disbursed, as well as the nature of purpose of such payments; all bank statements of the firm of Dreyer & Traub as well as canceled checks, checkbook stubs, for the period of January 1, 1948, to date, including but not limited to the books and records reciting or reflecting payments from, disbursements made to, and receipts and disbursements relating to the following:

Alfred Kaskel  
P. M. Lipstein  
Morris Kavy  
Punia & Marx

Alexander P. Hirsch  
Henry Hirsch  
Phillip Schoenfeld

for the period of January 1, 1948, to date, and including but not limited to payments from, disbursements made to and receipts and disbursements relating to the following-named corporations and/or projects and/or individuals, officials, employees, and shareholders connected with said corporations or projects:

Selgate Realty Corp.  
Coral Management Corp.  
Davenport Arms  
Chartone Garden Apartments  
Lizel Holding Co.  
Forest Drive Apartments  
Austin Street Construction Corp.  
Fieldstone Gardens (Netherlands Gardens)  
Sundown Gardens  
Congress Gardens  
Ridge Terrace  
Maplewood Housing  
Shore View Gardens  
Parkville Gardens  
The Sheridan  
The Fulton  
American Park Section No. 1  
Colony Terrace  
The Roosevelt  
Montgomery House  
The Jamestown  
Olinville Terrace  
Bay Parkway Apartments  
First Woodhaven Housing  
Second Woodhaven Housing

Third Woodhaven Housing  
The Hamilton  
Lena Gardens  
Lincoln Cooperative  
Regent Gardens  
Bay Shore Gardens  
Pelway Gardens  
Albert Apartments  
Oliver Gardens  
Aero Gardens  
Boulevard Gardens  
Anita Apartments  
Howard Gardens  
Mansfield Gardens  
Quality Gardens  
Cedar Gardens  
Forest Hills Village  
Forest Hills Gardens  
Greystone Gardens  
Barnes Gardens  
Lanson Gardens  
Roder Gardens  
Ruskin Gardens  
Farragut Gardens No. 1, Inc.  
Farragut Gardens No. 2, Inc.  
Farragut Gardens No. 3, Inc.

|                                      |  |
|--------------------------------------|--|
| Farragut Gardens No. 4, Inc.         | The Normandie                            |
| Farragut Gardens No. 5, Inc.         | Brearwood Gardens Apartments, Section IV |
| Queens College Gardens               | Blossom Gardens                          |
| Grand Central Apartments, Section 1  | Briarwood Gardens, Section I             |
| Grand Central Apartments, Section 11 | Briarwood Gardens, Section II            |
| Woodcliff Gardens, Inc., Section I   | Troy Gardens                             |
| Woodcliff Gardens, Inc., Section II  | Rego Terrace                             |
| Larchmont Gardens                    | Rego Gardens                             |
| Dara Gardens                         |  |

Mr. SIMON. As long as we are protecting the record, may we ask Mr. Traub, have you produced the books here this morning called for by subpoena?

Mr. WEISMAN. Yes.

Mr. SIMON. I asked Mr. Traub.

Mr. TRAUB. Yes.

Mr. SIMON. Where are they?

Mr. WEISMAN. In the back of the room.

Mr. SIMON. Are all the books called for by the subpoena here?

Mr. TRAUB. Mr. Weisman can answer.

Mr. SIMON. I am asking you. They are your books.

Mr. TRAUB. I delivered the books to Mr. Weisman's office about a month and a half ago.

Mr. SIMON. What books?

Mr. TRAUB. All the books that are in the office except the current checkbooks.

Mr. SIMON. Do you know whether there are included in those books the clients' ledger for which postings were made from the journal?

Mr. TRAUB. I do not know.

Mr. SIMON. You don't know whether they are included?

Mr. TRAUB. No. All the books—I know all the books are included.

Mr. SIMON. My question is: Do you know whether the books that you brought here this morning include the clients' ledgers on which postings were made from the journal?

Mr. TRAUB. Mr. Simon, whatever books I have are here.

Mr. SIMON. My question is whether you know whether those books include the client's ledgers from which postings were made from the journal?

Mr. TRAUB. Miss Krahan testified they do.

Mr. SIMON. That those books include the sheets she testified to as having been the ledgers on which she posted from the journal?

Mr. TRAUB. I think I heard her testify to that effect.

Mr. SIMON. Do the books that are here now include the ledgers on which she made the postings from the journal?

Mr. TRAUB. I don't know what books are here and what books are not here.

The CHAIRMAN. Let me say this: That we are going to rule on this matter at 4 o'clock today. We will ask you to come back at 4 o'clock, at which time we will rule on this matter. In the meantime, can we take inventory of these books to see whether or not they are all there? Do you have any objections to our people looking at them?

Mr. WEISMAN. Not at all, Senator, of course.

Senator PAYNE. Mr. Chairman, I would like to ask Mr. Traub a question if I may, or 2 or 3 questions before he leaves the stand.

The CHAIRMAN. We will have to turn off the cameras here. We weren't quite finished with you yet. You may proceed, Senator Payne.

Senator PAYNE. Mr. Traub, from the inception of your being in business, have you annually been provided by an accountant, or some other person, with a profit-and-loss statement at the close of each year and a balance sheet?

Mr. TRAUB. No.

Senator PAYNE. Have you at any time during the period of time that you have been in business had the benefit of a profit-and-loss statement or a balance sheet?

Mr. TRAUB. No, sir.

Senator PAYNE. Have you had accountants come in to audit the books of your company?

Mr. TRAUB. It is not a concern. It is a law firm.

Senator PAYNE. A law firm.

Mr. TRAUB. Yes, I have had accountants come in.

Senator PAYNE. What years did you have them come in?

Mr. TRAUB. I think every year.

Senator PAYNE. Every year. And did they submit to you—were they C. P. A.'s?

Mr. TRAUB. Yes.

Senator PAYNE. What was the name of the firm?

Mr. TRAUB. Greenberg & Fishman.

Senator PAYNE. They are located here in New York?

Mr. TRAUB. Yes.

Senator PAYNE. They are certified public accountants?

Mr. TRAUB. Yes.

Senator PAYNE. Did they make a thorough examination of the accounts and certify to you as to the correctness of the accounts?

Mr. TRAUB. I don't know what type of accounting they made, and they never certified to me the correctness of the account.

Senator PAYNE. They never submitted to you a balance sheet as a result of the examination?

Mr. TRAUB. They did not.

Senator PAYNE. Mr. Chairman and the committee, I would suggest at an appropriate time might request the presence either voluntarily or by subpoena of the accounting firm in order that some questions might be asked of that firm.

The CHAIRMAN. Yes. We will take that under advisement.

What did the accounting firm do if they did not certify to you?

Mr. TRAUB. I know they came in, I think once a month, and prepared my income-tax returns.

The CHAIRMAN. Once a year you mean?

Mr. TRAUB. No, they came in once a month to the best of my knowledge and did prepare my income-tax returns.

Mr. SIMON. Do you know any reason why they didn't sign the income-tax return?

Mr. TRAUB. No.

Mr. SIMON. It is customary for the accounting firm to so sign after it is prepared. There is no such certificate on these returns. Do you know why?

Mr. TRAUB. No.

The CHAIRMAN. Then we will now stand in recess until 2 o'clock. You be back at 4 o'clock and we will rule on this matter.

(Whereupon, at 12:28 p. m., the committee recessed until 2 p. m., the same day.)

## AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order. Our first witness will be Mr. Gilbert Tilles.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

**TESTIMONY OF GILBERT TILLES, KNIGHTSBRIDGE GARDENS,  
GREAT NECK, N. Y.**

Mr. TILLES. I do.

The CHAIRMAN. Will you give your full name and address to the reporter?

Mr. TILLES. Gilbert Tilles, 25 Hickory Drive, Great Neck.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Tilles, are you the sponsor of Knightsbridge Gardens?

Mr. TILLES. I am a sponsor, yes.

Mr. SIMON. Where is that located?

Mr. TILLES. In Great Neck.

Mr. SIMON. Great Neck, N. Y.?

Mr. TILLES. Right.

Mr. SIMON. Can you give us the street address?

Mr. TILLES. I honestly couldn't. I think there are any number of numbers there. I think it is 40, 60, and 80, Knightsbridge Road in Great Neck.

Mr. SIMON. Can you give us the streets it is bounded by?

Mr. TILLES. It is bounded on one side by Great Neck Road, and the other side, I honestly don't know, sir.

Mr. SIMON. Have you ever been out there?

Mr. TILLES. Yes, sir, I live there.

Mr. SIMON. You don't know the name of the other street?

Mr. TILLES. No, I don't, sir.

Mr. SIMON. Was that project insured by an FHA mortgage?

Mr. TILLES. That is right, sir.

Mr. SIMON. What was the amount of the mortgage?

Mr. TILLES. The amount of the mortgage was \$1,051,300.

Mr. SIMON. Did you get a premium on the mortgage when you sold it?

Mr. TILLES. I did, sir.

Mr. SIMON. What was the amount of the premium?

Mr. TILLES. \$42,052.

Mr. SIMON. How much did the land cost you the building was built on?

Mr. TILLES. The land cost was \$52,833.50.

Mr. SIMON. What were all the other costs of the building, including the construction, financing charges, and so forth?

Mr. TILLES. The actual construction cost as per the tax return was \$749,769.70—

Mr. SIMON. When you add all the financing charges, does that bring it up to \$801,166?

Mr. TILLES. I haven't those figures, sir, but if I can read them off to you, the mortgage costs was \$26,981.51. The other costs, meaning interest, real-estate taxes, insurance, operating expenses came to another \$20,945.61. I haven't the addition on that.

Mr. SIMON. I think you will find that totals \$601,166, and that plus the \$52,833 was the total cost of everything that went in the project, is that right?

Mr. TILLES. No. I will tell you. There is another \$3,500 actually paid for—

Mr. SIMON. Architect's fees? I included that.

Mr. TILLES. I didn't include that. I didn't know what you had there.

Mr. SIMON. The \$853,000 includes the cost of the construction, the mortgage cost, the insurance and real-estate taxes and the architect's fee and the land.

Mr. TILLES. I assume if your addition is correct; that is right.

Mr. SIMON. That means the proceeds of the mortgage were \$239,353 more than the total cost of the project; is that right?

Mr. TILLES. I haven't the figures in front of me, but I will follow your addition.

Mr. SIMON. Then upon completion of the building, did you people distribute to yourselves \$214,448?

Mr. TILLES. That is right.

Mr. SIMON. That was, that \$214,000 was out of the money left over from the mortgage after paying all the costs?

Mr. TILLES. I don't know where that \$214,000 came from. I mean the important part is that it was paid out in the form of dividends to the stockholders.

Mr. SIMON. Is there any place it could have come from other than the proceeds of the mortgage?

Mr. TILLES. No. I assume it came from that.

Mr. SIMON. What was the capital stock of that company?

Mr. TILLES. \$10,100.

Mr. SIMON. \$100 went to the FHA Commissioner and \$10,000 was put up by you people?

Mr. TILLES. That is correct.

Mr. SIMON. When was the building completed? Was it in September of 1950?

Mr. TILLES. It must have been approximately that date; yes.

Mr. SIMON. September or October 1950?

Mr. TILLES. I would say so.

Mr. SIMON. Before the end of that year you paid out this \$214,000 dividend; is that right?

Mr. TILLES. By the end of that year; yes, sir.

Mr. SIMON. The same year?

Mr. TILLES. Right.

Mr. SIMON. Did you treat that for your income tax as a long-term capital gain?

Mr. TILLES. I believe the accountant did, sir.

Mr. SIMON. Didn't you on your income-tax return?

Mr. TILLES. Yes, I did.

Mr. SIMON. Thank you.

The CHAIRMAN. Any questions?

Thank you very much.

Our next witness will be Mr. David Kent of the Dorie-Miller project.

Will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF DAVID KENT, DORIE-MILLER PROJECT, BROOKLYN,  
N. Y., ACCOMPANIED BY IRVING LANE, COUNSEL**

Mr. KENT. I do.

The CHAIRMAN. Will you please be seated?

Mr. LANE. Senator Capehart, I would like permission to address the committee, if you will, please.

The CHAIRMAN. For what purpose?

Mr. LANE. Well, I feel in line with the opening statement that you made this morning that you give all people who have been placed in an unjust light an opportunity to explain themselves.

The CHAIRMAN. Does this have to do with this witness or some other witness?

Mr. LANE. It has to do with this witness.

The CHAIRMAN. When we have finished asking him questions you can file or make a statement.

Mr. LANE. I would like to make the statement at the beginning of the hearing, if you please.

The CHAIRMAN. We will listen to your statement after we have asked certain questions.

Mr. LANE. Thank you very much.

The CHAIRMAN. Mr. Kent, will you give your full name and address to the reporter?

Mr. KENT. David Kent, 291 Exeter Street, Brooklyn 35, N. Y.

Mr. SIMON. Where were you the week of August 23, 1954?

Mr. KENT. On the 23d of August I was in the country having a much-needed vacation.

Mr. SIMON. Where?

Mr. KENT. In the Laurels Country Club.

Mr. SIMON. When did you arrive there?

Mr. KENT. I arrived there the morning, or the early noon of the 18th of August.

Mr. SIMON. August 18?

Mr. KENT. That is right.

Mr. SIMON. And you stayed there until Friday evening, August 27?

Mr. KENT. Friday afternoon, August 27.

Mr. SIMON. Did you decide to return to New York on August 27 because you knew that was the final day of this committee's hearings in New York?

Mr. KENT. I decided to return to New York because my children came home from camp that day.

Mr. SIMON. Did your wife know where you were any time during that 10 days you were absent from the city?

Mr. KENT. She did not, sir.

Mr. SIMON. What was the reason you didn't let her know where you were?

Mr. KENT. I had been through a very difficult job. I haven't been working since the 2d of December 1953.

Mr. SIMON. What was the reason you didn't want your wife to know where you were?

Mr. KENT. I am telling you that, Mr. Simon. I had lost over 50 pounds. I was feeling very badly, I was nervous, distraught, I was upset. I had pains under the heart. I went on a vacation and I did not want to be disturbed. I did not tell my wife.

Mr. SIMON. Now, on August 18, the day you left New York, did you know that this committee wanted your appearance at a hearing here in New York the following week?

Mr. KENT. I did not.

Mr. SIMON. Did you have a discussion with your lawyer that day?

Mr. KENT. I did not.

Mr. SIMON. Did you have a discussion with your lawyer that day?

Mr. KENT. I did not.

Mr. SIMON. You did not talk to your lawyer on that date?

Mr. KENT. I did not.

Mr. SIMON. Before you—at any time on August 18, 1954, did you communicate with your lawyer either over the telephone or by going into his office?

Mr. KENT. I saw my attorney the 17th of August.

Mr. SIMON. Did he tell you that this committee wanted your appearance?

Mr. KENT. He didn't.

Mr. LANE. At this time, if you please, Mr. Simon, I don't think it proper to ask that type of question—because any testimony of a lawyer—

The CHAIRMAN. Let me say this witness evaded this committee for a week.

Mr. LANE. Let me disagree with that statement, Mr. Capehart, he did not evade any process in this case.

Mr. SIMON. You told the investigator you would produce the man in your office to be served with a subpoena if we would agree to give you a continuance.

Mr. LANE. That is correct, sir. I called you in Washington on the 18th of August and I respectfully asked for an adjournment because I knew your committee would sit September 27, and I made a reasonable request, sir.

Mr. SIMON. When you were told you couldn't have a continuance, did you suggest to him that he go out of town?

Mr. LANE. I didn't suggest anything to him at all and any suggestion or any advice that I gave him, sir, is my concern and Mr. Kent's. It is not a proper question to ask because it is a confidential relationship.

Mr. SIMON. I think it is this committee's concern when a lawyer advises his client not to appear before a hearing of this committee.

Mr. KENT. Mr. Simon, I think you are in error.

Mr. SIMON. Didn't you tell our investigator on the morning of August 18 that if you were given a continuance you would produce him in your office that day to be served with a subpoena.

Mr. LANE. I spoke with your investigator about 11:30 or 12 noon and I told him I called you in Washington asking you to grant a postponement of this hearing.

Mr. SIMON. Didn't you tell him that if the postponement were granted, you would produce him that day to be served?

Mr. LANE. Yes. I did say that, sir, but I made a reasonable request of your office because I felt that Mr. Kent here had cooperated with your office. He had given you everything you asked for, and if I make a reasonable request knowing that this committee would be sitting in New York on September 27, it would not be denied.

Mr. SIMON. Is it your thought that it was purely a coincidence that he left town the same day you were denied a request for continuance?

Mr. LANE. No, sir, because the following day I went away. I was on my vacation and I communicated with your office and told them that I was going on my vacation.

The CHAIRMAN. Let's get——

Mr. LANE. I requested that postponement because of that fact as well; that I would not be in town.

Mr. SIMON. You overruled the committee and took the postponement.

Mr. LANE. I didn't overrule the committee. I don't think the innuendoes are proper at all, sir.

The CHAIRMAN. Let's get on with the business.

Mr. LANE. I think that should be the thing, Senator Capehart.

Mr. SIMON. Mr. Kent, did you build the Dorie-Miller project?

Mr. KENT. I did.

Mr. SIMON. Where is that located?

Mr. KENT. Northern Boulevard and Central Parkway Extended, bounded by 112th Street, Central Parkway, 134th Avenue, and Northern Boulevard in Queens.

Mr. SIMON. Is that project built under section 213 of the Housing Act?

Mr. KENT. Yes, sir.

Mr. SIMON. That section provides for cooperative projects to be built by nonprofit corporations or nonprofit trusts?

Mr. KENT. It is my impression it is a nonprofit cooperative organization.

Mr. SIMON. Did you cause to be created in connection with that project a nonprofit corporation?

Mr. KENT. I was instrumental.

Mr. SIMON. Who were the incorporators, or the people who caused this nonprofit corporation to be created?

Mr. KENT. It is my impression that the incorporators were A. C. Lennon, Herbert Cantrowitz, and Samuel Morrow.

Mr. SIMON. How do you spell Morrow?

Mr. KENT. M-o-r-r-o-w.

Mr. SIMON. Who is Samuel Morrow?

Mr. KENT. Samuel Morrow, as I told you in the hearing in Washington, is a brother-in-law of my brother.

Mr. SIMON. Is he a brother-in-law of your brother?

Mr. KENT. That is correct.

Mr. SIMON. Does he work for you?

Mr. KENT. He does not.

Mr. SIMON. Did he act as an incorporator here at your request?

Mr. KENT. Yes.

Mr. SIMON. Who is Herbert Cantrowitz?

Mr. KENT. My brother.

Mr. SIMON. Does he work for you?

Mr. KENT. Yes.

Mr. SIMON. Did he act as an incorporator here at your request?

Mr. KENT. Yes.

Mr. SIMON. Is it fair to say that Mr. Morrow and Mr. Cantrowitz were your nominees in the creation of this corporation?

Mr. KENT. They were.

Mr. SIMON. Who is Mr. Lennon?

Mr. KENT. A. C. Lennon is one of the cooperators.

Mr. SIMON. What is his business?

Mr. KENT. He is now engaged in the management, one of the management firms, which manages the cooperative corporation.

Mr. SIMON. Is he a partner in the firm of H. & L.?

Mr. KENT. H. & L. Management Co.

Mr. SIMON. When was this nonprofit corporation created?

Mr. KENT. I think I originally tried to get a State housing job on it. I originally tried to incorporate it in 1950.

Mr. SIMON. When was it incorporated?

Mr. KENT. The current Dorie-Miller was incorporated—it is my impression it was incorporated in late 1951 or early 1952.

Mr. SIMON. Did Mr. Lennon act as an incorporator here at your request?

Mr. KENT. He did.

Mr. SIMON. So that all three of them were your nominees, were they?

Mr. KENT. They were.

Mr. SIMON. What was Mr. Lennon's business at that time?

Mr. KENT. He is secretary to Congressman Powell.

Mr. SIMON. Was he a paid secretary?

Mr. KENT. I assume he is paid.

Mr. SIMON. Does he have an office in the Congressman's office?

Mr. KENT. He must.

Mr. SIMON. Is that where you dealt with him, in his office?

Mr. KENT. I dealt with him in his office. I also dealt with him on the job site.

Mr. SIMON. And you asked him to be one of the sponsors, or incorporators of this project?

Mr. KENT. Yes.

Mr. SIMON. After the project, the nonprofit corporation was created, did it enter into a contract with you or a company controlled by you to build this project?

Mr. KENT. The cooperative made a contract with me to build this project.

Mr. SIMON. Was that with you personally?

Mr. KENT. Personally, yes.

Mr. SIMON. And the people who acted on behalf of the cooperative were your brother and Mr. Morrow and Mr. Lennon, is that right?

Mr. KENT. That is right.

Mr. SIMON. They were all your nominees and they agreed with you on how much you should be paid for building the project?

Mr. KENT. That is not so. You are definitely wrong on that, Mr. Simon.

Mr. SIMON. Who acted on behalf of the nonprofit corporation in determining how much you should be paid?

Mr. KENT. These figures on the construction contract—and I may say that I waived approximately \$235,000 in builder's and architect's fees to reduce it—

Mr. SIMON. My only question is who represented the nonprofit cooperative corporation in negotiating with you for the amount of the builder's contract?

Mr. KENT. The construction contract was made up by the FHA.

Mr. SIMON. You had nothing to say about it?

Mr. KENT. A contract was offered to me, based upon an application by the cooperative, and the contract was offered to me.

Mr. SIMON. Didn't you sign a construction contract with this non-profit cooperative?

Mr. KENT. I did.

Mr. SIMON. And who represented the nonprofit cooperative in signing that construction agreement?

Mr. KENT. I think at the FHA I was requested to sign.

Mr. SIMON. No. Who represented the nonprofit corporation in negotiating the construction contract with you?

Mr. KENT. I don't know.

Mr. SIMON. I have before me a photostat copy of a construction contract dated April 7, 1952, between the Dorie-Miller Housing Co., Inc., and David Kent. You, of course, are David Kent.

Mr. KENT. That is right.

Mr. SIMON. Is the Dorie-Miller Housing Co., Inc., this nonprofit corporation we have been talking about?

Mr. KENT. Yes.

Mr. SIMON. And the contract is signed by you for David Kent?

Mr. KENT. Yes.

Mr. SIMON. And for Dorie-Miller Housing Co. it is signed here by Herbert Cantrowitz, president, and Samuel Morrow, secretary. I ask you to look at the contract and tell me if that is their signatures?

Mr. KENT. I think—I know it is my signature. I am reasonably certain those are their signatures.

Mr. SIMON. Well then didn't your brother and his brother-in-law act for this housing cooperative in signing this building contract with you?

Mr. KENT. They did.

The CHAIRMAN. Then they are the people that represented the nonprofit housing project, is that right?

Mr. KENT. That is right.

The CHAIRMAN. You didn't know that a moment ago?

Mr. KENT. I didn't know that until I saw that.

The CHAIRMAN. You didn't know that?

Mr. KENT. I didn't know who had signed the construction agreement. I had to refresh my recollection by seeing that.

The CHAIRMAN. This helped you to refresh your memory?

Mr. KENT. That is right.

The CHAIRMAN. Do the people who purchase the apartments in that cooperative apartment building own the land on which the building is built?

Mr. KENT. They don't.

Mr. SIMON. Who owns the land under the building?

Mr. KENT. I do.

Mr. SIMON. And is that a 99-year lease?

Mr. KENT. It is.

Mr. SIMON. And does that lease provide for \$4,120 annual rent to you for 99 years?

Mr. KENT. Yes.

Mr. SIMON. And even after these people have paid off the mortgage on the building, you will still own the land under the building?

Mr. KENT. Yes.

Mr. SIMON. You said a moment ago that the property is now managed by the L. & H. Management Co.?

Mr. KENT. Yes.

Mr. SIMON. Who are the L. & H. Management Co.? Who are the owners of it?

Mr. KENT. The L. & H. Management Co. is Lennon and William J. Hampton, I think it is.

Mr. SIMON. Are Mr. Lennon and Mr. Hampton the owners of that company?

Mr. KENT. As far as I know.

Mr. SIMON. Who selected them to be the managers of the building?

Mr. KENT. The Drydock Savings Bank, the FHA—any party concerned with that, because I have no privity to that contract. I don't know anything about what is in that contract.

Mr. SIMON. As I understood you a moment ago at the time the project was first started, when the noncooperative association was incorporated, you invited Mr. Lennon to be one of the sponsors?

Mr. KENT. He was going to be one of the cooperators.

Mr. SIMON. You invited Mr. Lennon and your brother and your brother's brother-in-law to be the three incorporators, is that right?

Mr. KENT. That is right.

Mr. SIMON. Did he ever hear of this project before you went to him?

Mr. KENT. Did who hear of it?

Mr. SIMON. Mr. Lennon.

Mr. KENT. No.

Mr. SIMON. You were the first one to tell him about it?

Mr. KENT. That is right.

Mr. SIMON. Who is Mr. Hampton?

Mr. KENT. Mr. Hampton is a secretary from Congressman Powell's office.

Mr. SIMON. So Lennon and Hampton are both secretaries in the Congressman's office?

Mr. KENT. That is right.

Mr. SIMON. Both on the Federal payroll?

Mr. KENT. I assume so.

Mr. SIMON. And they are the two managers of the project?

Mr. KENT. Yes.

Mr. SIMON. Isn't there also a management consultant that they were required to retain?

Mr. KENT. I don't know that they were required to retain, but I do know that James Felt & Co. is management consultant on the job.

Mr. SIMON. Isn't it true the Drydock Savings Bank, who hold the mortgage, refused to approve them as the management unless they did hire a management consultant?

Mr. KENT. I don't know that.

Mr. SIMON. You don't know that?

Mr. KENT. I have a letter here which might refresh my recollection.

Mr. SIMON. I would be glad to have you refresh your recollection.

Mr. KENT. This letter does not have that.

Mr. SIMON. It does not refresh your recollection?

Mr. KENT. No. Will you repeat your question?

Mr. SIMON. The question was whether or not the Drydock Savings Bank refused to approve Lennon & Hampton as managers of the property unless they hired management consultants.

Mr. KENT. I don't know that they refused. In fact, I know that Mr. Lee, the president, and Mr. Welton, the vice president, were very pleased to have Lennon & Hampton as the managing agents.

Mr. SIMON. This is Thurmond Lee you are talking about?

Mr. KENT. Yes.

Mr. SIMON. You don't know that Thurmond Lee declined to write the letter approving them until they agreed to hire the management agents?

Mr. KENT. That I don't know.

Mr. SIMON. During the progress of construction, how frequently did Mr. Lennon and Mr. Hampton visit the project?

Mr. KENT. They came down quite frequently.

Mr. SIMON. How frequently? Every week?

Mr. KENT. At least every week.

Mr. SIMON. And this is a Negro cooperative housing project, isn't it?

Mr. KENT. This is an interracial cooperative housing project.

Mr. SIMON. Were the cooperative apartments sold to the people who now own them in an office that was the Congressman's office?

Mr. KENT. Yes.

Mr. SIMON. Did Mr. Lennon and Mr. Hampton help you sell the apartments?

Mr. KENT. They sold the apartments; yes.

Mr. SIMON. Did they get paid for that?

Mr. KENT. Yes.

Mr. SIMON. How much did they get paid for selling the apartments?

Mr. KENT. It is my impression that they received approximately \$15 an apartment.

Mr. SIMON. How many apartments are there?

Mr. KENT. Well, they didn't sell all the apartments. They sold somewhere in the area of 240-250 apartments.

Mr. SIMON. So for 250 apartments they would have gotten \$3,750?

Mr. KENT. About \$3,400 or \$3,500.

Mr. KENT. I told you, Mr. Simon, that Mr. Hampton, I mean Mr. Lennon, received from me \$250. That was when he went to California, and my recollection is very clear on that now. I asked him to look for another site for me to build, if it were possible, to build another interracial housing job in California.

Mr. SIMON. So you paid his expenses to California so he could look for that site?

Mr. KENT. I don't know what his expenses to California were, but I paid him—it may have been more, but I paid him part of his expenses, if they were more.

Mr. SIMON. About how much?

Mr. KENT. \$250.

Mr. SIMON. Did you ever pay him anything else?

Mr. KENT. I paid him \$100 the following, oh, several months thereafter, when he was—and I testified as to that in Washington—I paid him a hundred dollars when he was going down south, and it might have been on his vacation. I also asked him to look for another site, if there might be a feasible site for me there.

Mr. SIMON. And in either one of these instances, did he find a site for you?

Mr. KENT. Nothing as pretty as Dorie-Miller.

Mr. SIMON. You are talking about land, I take it?

Mr. KENT. Yes.

Mr. SIMON. He wasn't able to find any land?

Mr. KENT. Any site comparable with Dorie-Miller.

Mr. SIMON. So for that reason didn't pick any site because there wasn't anything comparable?

Mr. KENT. No. I was interested in finding an excellent site.

Mr. SIMON. He couldn't find one for you?

Mr. KENT. He couldn't.

Mr. SIMON. Other than the two trips that you paid part of the expenses of, and the \$3,400 or \$3,500 that Lennon & Hampton got for selling apartments, have either one of them received any funds from you or from this project other than their salary as managers?

Mr. KENT. None that I know of.

Mr. SIMON. You would know if they got it out of the project, wouldn't you?

Mr. KENT. Yes.

Mr. SIMON. And that is all?

Mr. KENT. That is all.

Mr. SIMON. Did they receive approximately \$8,000 as managers of the project?

Mr. KENT. They received 3 percent of the rental income, which came to, I think, \$8,800.

Mr. SIMON. Is that for last year?

Mr. KENT. That is for, at the time they signed the contract.

Mr. SIMON. When was the contract signed?

Mr. KENT. I don't know which date but I know that the contract went into effect when they took over the management in December of 1953.

Mr. SIMON. How frequently during construction did the Congressman visit the project?

Mr. KENT. He would be there every week, every couple of weeks. I mean he would come down quite frequently.

Mr. SIMON. He took a real active interest in it?

Mr. KENT. He was highly interested in seeing that a proper, good, decent job, in which Negroes could be acceptable was built; yes.

Mr. SIMON. Now, in about September of 1952, did you have a conversation with the Congressman at the project with respect to an automobile?

Mr. KENT. I had a conversation at the project. I can't pinpoint the date.

Mr. SIMON. What is your best recollection of the date?

Mr. KENT. It might have been late September, possibly early October.

Mr. SIMON. Of what year?

Mr. KENT. Of 1952.

Mr. SIMON. Will you tell us what the conversation was?

Mr. KENT. He came down in a Jaguar automobile. I saw him then. It was a beautiful car.

Mr. SIMON. That is, the Jaguar was a beautiful car?

Mr. KENT. Yes.

I told him, I said, "Congressman"—I used to call him Congressman, or Dr. Powell—I said, "That is a beautiful car you have there." And he said that it was a beautiful car but there was another car he would like to own, a Nash Healey, and it was designed by the leading designer in the automobile business, Farinari, or something, and he said he would like to own it.

Mr. SIMON. Any other conversation?

Mr. KENT. Yes. I asked him why he didn't get it. He said he didn't have the money to buy it. I asked him how much he would need in order to get the Nash Healey. He said that he would, he needed about \$3,000, and I offered to lend him \$3,000 in order to buy that car.

Mr. SIMON. Was there any other conversation?

The CHAIRMAN. Did you lend him the \$3,000?

Mr. KENT. Yes, I did.

Mr. SIMON. I have before me a copy of the order blanks of the Nash Healey Co. for this car, dated August 29, 1952. Would that refresh your recollection as to when he ordered it?

Mr. KENT. I don't know when he ordered the car.

Mr. SIMON. Was there an interval of time between the time you said you would advance the money and the time he told you the car was ready for delivery?

Mr. KENT. No. I think he accepted delivery that day, the same day that I advanced him the money.

Mr. SIMON. Yes, but did you offer to advance the money the same day you advanced it?

Mr. KENT. No.

Mr. SIMON. Or was there an interval of time?

Mr. KENT. I don't understand your question.

Mr. SIMON. You have just testified to a conversation that you had with Mr. Powell in front of this project.

Mr. KENT. Yes.

Mr. SIMON. In which you said you would advance the \$3,000 to buy the car.

Mr. KENT. I would lend him \$3,000 with which to buy the car.

Mr. SIMON. When was that with relation to the day on which you gave him the check for \$3,000?

Mr. KENT. I understand now. He called me, I think it was a couple of weeks thereafter—it could have been 2 or 3 weeks—and told me he was ready to accept delivery of the car.

Mr. SIMON. What did you do then?

Mr. KENT. I went over to his office. I drove over to his office in Manhattan. His office is at 132 West 138th Street.

Mr. SIMON. Did you give him the check?

Mr. KENT. I went up to his office. He was busy at the time. I got word to him I was there. Some time, I think in the afternoon it was, and I met with the Congressman, and told him that I was ready to make the loan.

Mr. SIMON. Was that on October 15, 1952?

Mr. KENT. No. It was on October 14, 1952.

Mr. SIMON. The check that you apparently have a photostat of in your hand is dated October 15, 1952.

Mr. KENT. That is right.

Mr. SIMON. That was the day before?

Mr. KENT. No; this was the day before—I made the date out, it was after banking hours; I generally make a check for the following day, but it was on the 14th of October.

Mr. SIMON. It was on the 14th and you gave him a check dated October 15, 1952, for \$3,000, payable to the order of Adam Clayton Powell, Jr.?

Mr. KENT. That is right.

Mr. SIMON. The reverse side shows that he endorsed it and it was deposited in the Bank of Manhattan Co. to the credit of Nash Healey, Inc.; is that right?

Mr. KENT. That is right.

Mr. SIMON. It also shows it was deposited in the Bank of Manhattan on October 15, 1952?

Mr. KENT. That is correct. It is also my impression that the man from the Nash Healy Co. was at the office the night of the 14th to pick up the check.

Mr. SIMON. Where was the automobile delivered to Mr. Powell?

Mr. KENT. I don't know.

Mr. SIMON. Do you know whether the automobile was delivered to him on the site of the job?

Mr. KENT. I couldn't say.

Mr. SIMON. I show you a picture here of a construction shack, with a large sign on the top of the shack saying "Dorie-Miller Cooperative Apartments." And in the background is a building under construction.

I ask you when you look at it to tell me whether that is the Dorie-Miller project which you built, and in front of the building is an automobile with a man in it, and another man standing beside it, and I ask if this is the automobile and if Mr. Powell is sitting in the car and whether this is the Nash salesman who is standing beside it?

Mr. KENT. This is the Dorie-Miller site.

Mr. SIMON. That is the site of the job?

Mr. KENT. That is the site.

Mr. SIMON. Is that the Nash salesman standing beside the car?

Mr. KENT. I don't know whether the Nash salesman is.

Mr. SIMON. You said a moment ago the salesman was there.

Mr. KENT. A man from the Nash Healey Co. was there.

Mr. SIMON. Was this the man?

Mr. KENT. I don't think this is the man who was there. I am certain because this man was bald, and the man in my recollection was a much younger man. That is Congressman Powell, and that is, looks like the Nash Healey, and that was taken before the car was bought.

Mr. SIMON. Before the car was bought?

Mr. KENT. That is my impression; yes. I wasn't at the site at the time.

Mr. SIMON. When was this photograph taken?

Mr. KENT. You couldn't pinpoint the time.

Mr. SIMON. Do you know whether it was before or after October 14?

Mr. KENT. I am reasonably certain that it was taken before October 14.

Mr. SIMON. Now, if you will notice the automobile has dealer license plates on it. Did you notice that?

Mr. KENT. Yes.

Mr. SIMON. And would that indicate to you that the car was, or had been in the dealer's possession at least up until the time this picture was taken?

Mr. KENT. It might tend to show that.

Mr. SIMON. I show you another picture in the same background and Mr. Powell is signing what looks like an order blank from the man beside him. Does that refresh your recollection any?

Mr. KENT. I wasn't there at the time nor do I know what the Congressman is writing there. He might have been giving him his autograph.

Mr. SIMON. I show you another picture with the baldheaded man, as you pointed out, handing what looks to be the keys to Mr. Powell, and ask you if that is Mr. Powell taking the keys to this car?

Mr. KENT. I see this gentleman handing Congressman Powell something. I don't know what it is.

Mr. SIMON. It looks like the keys, don't you think?

Mr. KENT. I wouldn't venture a guess.

Mr. SIMON. Now I show you another picture with maybe 30 workmen in the picture, and I ask you if these are the workmen who were working on the job?

Mr. KENT. I recognize some of the men who worked on the job; yes.

Mr. SIMON. Do you know what reason there was why the workmen stopped work and all had their picture taken with Mr. Powell around the automobile?

Mr. KENT. I would feel proud to be around the Congressman. I assume that these men were proud to be with the Congressman.

Mr. SIMON. Do you know what reason there was for stopping the work and everybody going down to have his picture taken?

Mr. KENT. As far as I recollect, I wasn't there at the time.

Mr. SIMON. Did you know these pictures had been taken?

Mr. KENT. I knew pictures had been taken. I didn't know these pictures were taken but I do have a recollection of him coming after working hours.

Mr. SIMON. What was the purpose of these pictures being taken?

Mr. KENT. I don't know.

Mr. SIMON. When did you first learn that pictures had been taken?

Mr. KENT. The following day, when I spoke to the men and I had learned that the Congressman was on the job and that pictures had been taken.

Mr. SIMON. Then if you learned about it the following day you can fix the time when these pictures were taken?

Mr. KENT. No; I can't fix that time. I wouldn't venture a guess. I mean I can possibly guess as to the time of day, but not which day it was.

Mr. SIMON. It is the day I am interested in.

Mr. KENT. I couldn't pinpoint it.

Mr. SIMON. Did you have anything to do with the purchase of the Jaguar?

Mr. KENT. No.

Mr. SIMON. You didn't advance the money or loan the money for that?

Mr. KENT. I made only one loan to Congressman Powell.

Mr. SIMON. Now with respect to the terms of this loan, it was made in October——

The CHAIRMAN. First let me ask this: Has the \$3,000 loan been paid?

Mr. KENT. It has not been paid.

The CHAIRMAN. How much has been paid on it?

Mr. KENT. Nothing.

The CHAIRMAN. Nothing has been paid on it?

Mr. KENT. No.

The CHAIRMAN. It is what now, about 3 years old?

Mr. KENT. It is less than 2 years.

Mr. SIMON. October 14, 1952, is the date you gave the money, is that right?

Mr. KENT. That is right.

Mr. SIMON. You were interrogated on July 28, 1954, in Washington?

Mr. KENT. I was.

Mr. SIMON. Were you asked these questions and did you make these answers, and I am reading from page 4472 of the transcript:

Question: That was in October of 1952, which is——

Mr. KENT. Some time in the fall of 1952.

Question. And it was due on demand after some date in January 1953?

That is, the loan was due on demand after January 1953.

Mr. KENT. That is right.

Mr. KENT. That is true.

Mr. SIMON (reading):

Question. Have you ever made demand for payment of the note?

Mr. KENT. I hold—I have never made a demand.

Question. You have never made a demand for payment?

Mr. KENT. No.

Question. Do you ever intend to?

Mr. KENT. How can I answer that?

Question. I don't know.

Mr. LANE. You answer it.

Mr. KENT. Of course I intend to get paid.

Question. When?

Mr. KENT. When the Congressman has the money to pay me.

Question. As I understand it from you it was on demand. When do you intend to make demand for payment?

Mr. KENT. When I loaned it to him I told him, "Pay me when you are flush."

Question: If he is never flush, you don't expect to get it?

Mr. KENT. I expect that he is an honorable man.

Question. Do you ever intend to make a demand or do you intend to wait until he feels he is in a position to pay it?

Mr. KENT. I would like to have him come to me and offer to pay it. I would rather have him offer to pay it.

Were those questions asked and did you make those answers, Mr. Kent?

Mr. KENT. Yes, I did.

Mr. SIMON. As I understand it, the note was due—the note was dated in October 1952, and due on demand after January 1953?

Mr. KENT. That is correct.

Mr. SIMON. And in the 21 months that have elapsed you have made no demand?

Mr. KENT. I have not.

Mr. SIMON. Now the note as I understand it also provides for interest at 1 percent?

Mr. KENT. That is right.

Mr. SIMON. When did Mr. Powell first pay you any interest?

The CHAIRMAN. You say the interest is 1 percent?

Mr. KENT. One percent.

The CHAIRMAN. One percent a year?

Mr. KENT. That is one percent a year.

Mr. SIMON. When did Mr. Powell first pay you any interest?

Mr. KENT. I was paid interest on, let's see, Bill Hampton gave me an envelope—

The CHAIRMAN. Who gave you?

Mr. KENT. Mr. Hampton.

The CHAIRMAN. That is Mr. Powell's secretary?

Mr. KENT. That is right—gave me an envelope which contained an interest check on the 5th of April.

Mr. SIMON. Do you have any—

The CHAIRMAN. The 5th of April this year?

Mr. KENT. The 5th of April 1954.

Mr. SIMON. That was a \$30 check?

Mr. KENT. That is right.

Mr. SIMON. That was interest for the period from October 1952, to October 1953, is that right?

Mr. KENT. It was 1 year's interest from the time of making, yes.

Mr. SIMON. That would be October 1952, to October 1953?

Mr. KENT. That is right.

Mr. SIMON. And you received it in April 1954?

Mr. KENT. That is right.

Mr. SIMON. Now, do you have any written record of the date on which that check was handed to you?

Mr. KENT. I have a very good recollection of that date on which that check was given me.

Mr. SIMON. What is the reason you have such a good recollection of the date?

Mr. KENT. Well, I was called on Saturday, April 3, by Mr. Hampton. He wanted to see me on the job site. There was something he wanted to show me in the boiler room, some concrete that he wanted to show me in the boiler room and I arranged—he told me that he had an envelope for me. I arranged to meet him on the job site the following Monday, which was the 5th of April.

Mr. SIMON. Do you have any record of that meeting?

Mr. KENT. I don't make entries as to meeting with people. I don't have an entry as to meeting here.

Mr. SIMON. The reason I ask is that you were reasonably vague about these other dates, and here you are very precise and 1 week would make a big difference. The check I know is dated April 3.

Mr. KENT. I looked at the check on the 5th day of April.

Mr. SIMON. But as you probably know, the President made an announcement on April 10 about the FHA scandal.

Mr. KENT. I don't know what date the President made an announcement. We discussed that in Washington and you tried to pinpoint it, Mr. Simon.

Mr. SIMON. All you have to do is get a newspaper for April 10 and you can read in the newspapers.

Mr. KENT. But I haven't gotten the newspapers.

Mr. SIMON. You weren't curious between July and now to check that up?

Mr. KENT. No; I wasn't.

Mr. SIMON. You recall in July when we examined you we were quite concerned as to whether this check was given to you after the announcement of the FHA scandals or before.

Mr. KENT. There was no tieup in my mind as to any connection between any announcement in any newspapers and my receipt of this check.

Mr. SIMON. Regardless of whether there was a tieup in your mind or not, Mr. Kent, do you have any record that indicates the date on which you got this \$30 check?

Mr. KENT. The record I get from this check, because when I look at it, on the 5th, I saw it was dated the 3d.

The CHAIRMAN. When did you deposit the check to cash it?

Mr. KENT. I never deposited it.

The CHAIRMAN. You haven't cashed it to this date?

Mr. KENT. No.

The CHAIRMAN. Why?

Mr. KENT. Because Congressman Powell is a friend of mine. I am not in the business of making loans to friends. I mean, I am not in the business of making loans.

The CHAIRMAN. Why did he give you the \$30 check if he didn't expect you to cash it?

Mr. KENT. I didn't say that. I didn't expect to cash it.

The CHAIRMAN. You don't expect to cash it?

Mr. KENT. This is a friendly loan. I don't expect to make a profit on it.

The CHAIRMAN. You wouldn't make much profit on 1 percent.

Mr. KENT. I have never paid interest on any loan I have had in the past nor do I expect to receive any interest from friendly loans. I don't make business loans.

The CHAIRMAN. In other words, you never intended to cash this \$30 check?

Mr. KENT. I never intended to cash it. In fact, when Congressman Powell comes to me and pays me this \$3,000, I intend to return this check to him.

The CHAIRMAN. When do you think he will come to you and pay the \$3,000? Do you have any idea?

Mr. KENT. Right at present I don't, but I am certain that he will come and pay it. It may be soon.

Mr. SIMON. Is it still your position, Mr. Kent, that when he is flush he will pay it and you will not make a demand on him until he is flush?

Mr. KENT. He is a very honorable man. He is a good friend of mine. He will pay the loan.

Mr. SIMON. Is it still your position that you don't intend to make a demand on him and you will wait until he is flush and then he will pay you?

Mr. KENT. I would still rather have him come and offer to pay it to me, rather than make a demand.

Mr. SIMON. But my question is whether you intend at any time to make a demand for the payment of the loan?

Mr. KENT. I can't answer that.

Mr. SIMON. You can't answer whether you ever intend to make a demand?

Mr. KENT. I don't know how I will feel tomorrow or 10 days from now.

Mr. SIMON. But currently—

Mr. KENT. Currently I hope he will pay it because he is a very honorable person.

The CHAIRMAN. Had you ever had any business dealings or relationship with Congressman Powell prior to the time you started the construction of this project?

Mr. KENT. I met—I had no other business dealings with him.

The CHAIRMAN. Your first connection with him in a business way or otherwise was in connection with this project?

Mr. KENT. That is right.

The CHAIRMAN. In other words, you started this project when?

Mr. KENT. I started—I bought this land in 1949 and I went to see Congressman Powell either in 1950 or the early part of 1951.

The CHAIRMAN. And prior to that time you had had no connection with him whatsoever?

Mr. KENT. No.

The CHAIRMAN. And your connection with Congressman Powell stems from this project?

Mr. KENT. My connection with Congressman Powell stems from a very fine friendship.

The CHAIRMAN. As a result of this project?

Mr. KENT. As a result of my meeting him and discussing the benefits of cooperative housing as far as minority groups were concerned.

The CHAIRMAN. I said as a result of this project.

Mr. KENT. Yes.

The CHAIRMAN. That is what this project is.

Mr. KENT. Yes.

Mr. SIMON. How many units are there in the project?

Mr. KENT. Three hundred.

Mr. SIMON. You said that Lennon and Hampton received a commission on the sale of 250, approximately, units?

Mr. KENT. Approximately.

Mr. SIMON. Did anybody else receive a commission on the sale of the remaining units?

Mr. KENT. A Mr. Herman Campbell.

Mr. SIMON. Who is he?

Mr. KENT. He is a real-estate broker who was not sufficiently effective in the sale of these apartments.

Mr. SIMON. As I understand it, Mr. Powell's office was used for selling these units?

Mr. KENT. Yes.

Mr. SIMON. Was any compensation or remuneration given to him for using his office in the sale of these units?

Mr. KENT. I think he received his compensation in the fact that the people were or had housing made available to them.

Mr. SIMON. Let me ask: Was any monetary compensation given to him for use of his office?

Mr. KENT. None.

Mr. SIMON. Could it be that this automobile transaction was to show your appreciation for using his office to sell these units?

Mr. KENT. It could not possibly be.

Mr. SIMON. No connection at all?

Mr. KENT. No connection whatsoever.

Mr. SIMON. Is it purely a coincidence that Lennon and Hampton received these commissions for selling units and are now on the payroll as the managers of these buildings and are also the congressional secretaries of Congressman Powell?

Mr. KENT. Lennon and Hampton are very competent people.

Mr. SIMON. I am sure they are. I was wondering whether they were chosen as managers of the project because they were Mr. Powell's secretaries or whether that was just pure coincidence.

Mr. KENT. They were chosen, not by me—they were chosen because they were competent people. They were going to live on the site.

Mr. SIMON. Who chose them?

Mr. KENT. I stated before that the Drydock Savings Bank, in consultation with all interested parties. I understand the FHA had to approve the management contract.

Mr. SIMON. Certainly the Drydock Savings Bank did approve them, but I think they would deny selecting them. Do you know who selected them?

Mr. KENT. I think the Drydock Savings Bank selected them.

Mr. SIMON. Is it your testimony that they were the ones who had the idea for making these people—

Mr. KENT. These people might have had the idea they would like to be managing agent and I can see nobody more competent to be the managing agent, but as far as the selection is concerned, I don't know who was the actual person who selected them.

Mr. SIMON. Thank you very much.

The CHAIRMAN. Any further questions?

If not, we thank you very much.

Mr. KENT. I would like to read a statement.

The CHAIRMAN. You may proceed to make your statement.

Mr. KENT. Thank you for your kind permission.

I am a builder who did not make a windfall profit. In fact, I waived a builder's fee of approximately \$127,000. My architect waived a similar fee. As a result, the cooperators received the benefit of substantial savings amounting to almost a quarter of a million dollars, and were therefore able to acquire apartments at very nominal cost. The president of the Drydock Savings Bank said, and I quote:

The downpayments for apartments in Dorie-Miller were less than one-half of those in the other developments.

I erected a good, sound structure and in a beautiful locality for minority groups. Again I respectfully quote from the statement made by the president of the Drydock Savings Bank:

Realizing what a splendid site it was, we determined to make the investment if we could satisfy ourselves that the houses would be as well built as possible, within the scope of Federal Housing Administration specifications. Fortunately the builder was cooperative in this respect.

I think it fair to say that when these buildings are completed and approved by the FHA and our architect they will be as well constructed as any buildings of their character in the city of New York, and better than many.

Paragraph 3. I am proud to say that with the aid of the Federal Housing Administration, and the Drydock Savings Bank, I was able to provide and make available to minority groups decent housing accommodations.

Paragraph 4. Contrary to newspaper insinuations, I have been a very cooperative citizen. On less than 24 hours' notice by telephone, I flew to Washington, D. C., and voluntarily appeared before the Senate Banking and Currency Committee. I testified fully and freely. Prior to that, I willingly met and conferred with Mr. McManus, one of the staff investigators of the said committee. At his request I prepared and submitted certain desired data.

I interrupted a visit with my children at camp and drove over 300 miles in a torrential rain in order to give the committee certain photostats that it requested.

5. I had not been served with a subpoena to appear on August 25, as several newspapers reported. It is not true that I disobeyed a subpoena. I was away on a much-needed vacation at the time.

6. As soon as I learned of the request for my presence here on September 27, 1954, I promptly appeared at the office of the United States marshal. I asked for and accepted a subpoena. This fact can be easily verified.

7. I have been unjustly attacked and defamed, and I therefore wish to express my sincere gratitude to Senator Capehart for permitting me to make this clarifying statement.

The CHAIRMAN. Any further questions?

If not, we thank you very much for your testimony.

Mr. LANE. Thank you, sir.

The CHAIRMAN. Our next witness will be Mr. Louis Mintz. Will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF LOUIS MINTZ, KINGSWAY, BROOKLYN, N. Y.,  
ACCOMPANIED BY LARRY PODELL, COUNSEL**

Mr. MINTZ. I do.

The CHAIRMAN. Thank you, sir.

Please be seated. The gentleman with you is your attorney?

Mr. MINTZ. That is right. This is my attorney, Mr. Podell.

The CHAIRMAN. Please give your name and address to the reporter.

Mr. MINTZ. My name is Louis Mintz. I live at 5566 Kings Highway, Brooklyn.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Mintz, are you one of the sponsors of the Kingsway Development Co.?

Mr. MINTZ. I am.

Mr. SIMON. What is the project that that company built?

Mr. MINTZ. Section 608.

Mr. SIMON. Where is it?

Mr. MINTZ. Kings Highway, East 95th to East 96th Streets.

Mr. SIMON. What was the capital stock of the Kingsway Development Co.?

Mr. MINTZ. \$45,567.96.

Mr. SIMON. How many shares of stock were issued?

Mr. MINTZ. It was either 100 or 200 shares.

Mr. SIMON. How many were there?

Mr. MINTZ. I believe there were 100 shares of common and 100 shares of preferred.

Mr. SIMON. How much was paid for the common per share?

Mr. MINTZ. The total amount recorded is the figure I just gave you.

Mr. SIMON. What was the amount paid per share for the common stock?

Mr. MINTZ. Well, you divide it by 100 and you arrive at the share.

Mr. SIMON. What was the par value of the common stock?

Mr. MINTZ. I don't know.

Mr. SIMON. How many shares of common stock did you own?

Mr. MINTZ. 30 percent.

Mr. SIMON. 30 shares?

Mr. MINTZ. 30 percent of the shares.

Mr. SIMON. 30 shares?

Mr. MINTZ. Yes. No, 30 percent.

Mr. SIMON. How many common shares were there?

Mr. MINTZ. I believe a hundred.

Mr. SIMON. Wouldn't 30 percent of 100 be 30 shares?

Mr. MINTZ. That is right.

Mr. SIMON. How much did you pay for those 30 shares?

Mr. MINTZ. 30 percent of the common stock.

Mr. SIMON. How many dollars did you pay for it?

Mr. PODELL. May I answer?

Mr. SIMON. If you can tell us how many dollars he paid for his 30 shares.

Mr. PODELL. We were a little indefinite on the number of shares because frankly we were interested in the total amounts. There was \$1,000 cash contributed for all of the common stock and land which had a cost basis to the stockholders of \$44,567.96. The number of dollars per share, as I said, if you don't know the exact amount of the stock issue we can't give you that. We are giving total figures.

Mr. SIMON. The number of dollars paid in for common was \$1,000 and you also put in the land which was \$45,000?

Mr. PODELL. It had a value far in excess of that.

Mr. SIMON. Is that right?

Mr. PODELL. That is right.

Mr. SIMON. The number of dollars was \$1,000 for the common stock?

Mr. PODELL. Yes.

Mr. SIMON. Is that right?

Mr. PODELL. The number of dollars that were paid, yes, sir.

Mr. SIMON. For the common stock was \$1,000.

Mr. PODELL. That is right. [Nods head affirmatively.]

Mr. SIMON. The reporter doesn't get you when you shake your head.

Mr. PODELL. That is right.

Mr. SIMON. What was the amount of the mortgage, Mr. Mintz?

Mr. MINTZ. \$1,253,800.

Mr. SIMON. How much of a premium did you get when you sold the mortgage?

Mr. MINTZ. The gross was \$47,017.50.

Mr. SIMON. What was the cost of the land?

Mr. MINTZ. The cost was \$44,567.96.

Mr. SIMON. What were the financing costs, and the construction costs?

Mr. MINTZ. Without the land, \$1,105,829.82.

Mr. SIMON. Total with the land would be \$1,150,830?

Mr. MINTZ. Approximately that.

Mr. SIMON. Therefore, the total cost of the building and the land, including the financing costs and all other charges, was \$150,000 less than the proceeds of the mortgages; is that right? That is, \$149,988?

Mr. PODELL. Without the cost of the land?

Mr. SIMON. No, with the cost of the land and with the premium on the mortgage.

Mr. MINTZ. The difference between the mortgage and the total cost is \$103,502.

Mr. SIMON. You got a \$47,000 premium on the mortgage, didn't you? Is that right?

Mr. MINTZ. That wasn't net. We paid out over \$12,000 of that premium.

Mr. SIMON. Only 35 of it was net?

Mr. MINTZ. That is right.

Mr. SIMON. Then the proceeds of the mortgage exceeded the total cost by \$138,000; is that right?

Mr. MINTZ. About that, yes.

Mr. SIMON. When was the building completed?

Mr. MINTZ. I guess about August of 1950.

Mr. SIMON. August of 1950?

Mr. MINTZ. That is right.

Mr. SIMON. In that year, how much did you distribute to yourselves in cash?

Mr. MINTZ. \$216,000.

Mr. SIMON. Where did the \$216,000 come from?

Mr. MINTZ. There was \$45,000, the land, capital stock, net—

Mr. SIMON. It came out of the mortgage proceeds, didn't it?

Mr. MINTZ. That is right.

Mr. SIMON. The \$216,000 that you paid up yourselves within a couple of months after the project was finished was the money left over out of the mortgage, is that right?

Mr. MINTZ. That is right.

Mr. SIMON. Now, a builder's fee of 3 percent was paid to Mar-Mintze Homes, is that right?

Mr. MINTZ. That is right.

Mr. SIMON. And the cost you gave me are after payment of that builder's fee?

Mr. MINTZ. That is right.

Mr. SIMON. So that even though you had to pay builder's fee and even though you had to pay architect's fees, you still were able to come out with better than 10 percent of the mortgage proceeds left over? Is that right.

Mr. MINTZ. Yes.

Mr. SIMON. Did you build this project to rent it, and to get income from the rentals, or did you build the project to see how much money you could make out of the mortgage money?

Mr. MINTZ. Well, that is, first, when I built, naturally I built it for income purposes.

Mr. SIMON. When you built it you weren't intended to make a profit out of the mortgage money?

Mr. MINTZ. No.

Mr. SIMON. Was it your intention when you started this that the costs would be in excess of the mortgage proceeds?

Mr. MINTZ. Well, that is a little difficult to say at that time. I don't project my mind back to that particular period.

Mr. SIMON. When you started this building, was it your intention that the mortgage proceeds would more than pay for all the costs and you would mortgage out, as they say?

Mr. MINTZ. Well, so the rumor went, but you never know how these things turn out until you actually construct them.

Mr. SIMON. Do you mean by that that was what you intended to do although you had no insurance it would work out that way?

Mr. MINTZ. I was hoping so, I had no assurance, no.

Mr. SIMON. How big a windfall did you estimate you would make when the project was completed?

Mr. MINTZ. We never use the word "windfall."

Mr. SIMON. You don't like that word?

Mr. MINTZ. No. I don't like that word. Frankly—

Mr. SIMON. The reason I asked you these questions is that I notice within 2 months of completing the project, you paid yourselves \$216,000 out of the mortgage proceeds, and then the following year you sold the whole thing for only \$100,000.

Mr. MINTZ. That was subject to the \$1,253,000.

Mr. SIMON. Yes; but that was after you had taken home \$216,000; is that right?

Mr. MINTZ. No.

Mr. SIMON. When did you pay yourselves the \$216,000?

Mr. MINTZ. That was just before we sold the property.

Mr. SIMON. Just before you sold the property?

Mr. MINTZ. That is right.

Mr. SIMON. How much did you sell it for?

Mr. MINTZ. \$100,000 above the commitment.

Mr. SIMON. Did you get the \$100,000?

Mr. MINTZ. That is right.

Mr. SIMON. How much of it did you get?

Mr. MINTZ. About \$85,000 or \$90,000, my 30 percent of whatever that figure is.

Mr. SIMON. The 3 of you got \$85,000 or \$90,000 to take home out of the amount?

Mr. MINTZ. Four of us.

Mr. SIMON. You got \$85,000 or \$90,000 out of the \$100,000?

Mr. MINTZ. That is right.

Mr. SIMON. Then you also got a \$30,000 builder's fee, didn't you?

Mr. MINTZ. Yes; we got that.

Mr. SIMON. The same group got that?

Mr. MINTZ. That is right.

Mr. SIMON. So when was the building completed?

Mr. MINTZ. The latter part of 1950.

Mr. SIMON. What do you mean by that?

Mr. MINTZ. About August or September.

Mr. SIMON. When did you sell it?

Mr. MINTZ. A couple of months after that.

Mr. SIMON. About 2 months after that?

Mr. MINTZ. That is right. Wasn't it? Just a minute. About the same time.

Mr. SIMON. About the same time it was completed?

Mr. MINTZ. That is right.

Mr. SIMON. Substantially upon completion of the building you sold it?

Mr. MINTZ. That is right.

Mr. SIMON. And you got \$216,000 out of the mortgage proceeds? \$85,000 or \$90,000 out of the sale?

Mr. MINTZ. No. My attorney tells me I didn't get the \$216,000.

Mr. PODELL. The \$216,000 is not solely out of the mortgage proceeds. I believe you had a figure of \$140,000 from the mortgage proceeds. It is your own figure.

Mr. SIMON. I have no figures of my own. All I know is what this man tells me. I am trying to find out whether the \$216,000 includes the \$85,000, or is in addition to the \$85,000.

Mr. MINTZ. I have a breakdown of what it includes if I may give you the figures.

Mr. SIMON. Did you pay yourself a dividend of \$216,000?

Mr. MINTZ. Yes, sir.

Mr. SIMON. You did?

Mr. MINTZ. Yes.

Mr. SIMON. Was the \$85,000 or \$90,000 on the sale of the property in addition to that or included in that?

Mr. MINTZ. That is in addition to that.

Mr. SIMON. In addition to that?

Mr. MINTZ. Yes.

Mr. SIMON. Is that right?

Mr. MINTZ. That is right.

Mr. SIMON. So you got \$216,000 plus \$85,000 or \$90,000?

Mr. MINTZ. But that \$85,000 or \$90,000 had nothing to do with the mortgage proceeds.

Mr. SIMON. I understand that. That was within 2 or 3 months after finishing the building?

Mr. MINTZ. That is right.

Mr. SIMON. You sold your stock for \$85,000 or \$90,000?

Mr. MINTZ. That is right. It was resold.

Mr. SIMON. All right, but you sold your stock for \$85,000 or \$90,000?

Mr. MINTZ. That is right.

Mr. SIMON. Within 2 months after finishing the building?

Mr. MINTZ. That is right.

Mr. SIMON. Before you sold it you had taken out \$216,000 out of the mortgage proceeds in addition to \$30,000 in builder's fees?

Mr. MINTZ. That doesn't take into consideration the land.

Mr. SIMON. Isn't the \$216,000 a dividend?

Mr. MINTZ. That includes the land.

Mr. SIMON. That included the land?

Mr. MINTZ. That is right.

Mr. SIMON. So if you take off the \$45,000, only \$117,000—

Mr. MINTZ. No, I take another \$100,000 off of that figure, too.

Mr. SIMON. How much did the land cost you?

Mr. MINTZ. The land cost \$44,000.

Mr. SIMON. And \$44,000 from \$216,000 leaves \$172,000 doesn't it?

Mr. MINTZ. That is right.

Mr. SIMON. Is there any other expenses you had there?

Mr. PODELL. Are you trying to arrive at the \$216,000?

Mr. SIMON. I am merely trying to find out what he got out of it.

Mr. PODELL. They took the \$216,000 as a return for their land, for their capital and as part of the mortgage premium, that had been paid.

Mr. SIMON. Your client testified a minute ago—Mr. Mintz, did I hear you right that there was a \$216,000 dividend paid?

Mr. MINTZ. Yes, but that included the land.

Mr. SIMON. The land cost \$44,000, is that right?

Mr. MINTZ. That is right. That was our cost.

Mr. SIMON. The cost was \$44,000?

Mr. MINTZ. That is right.

Mr. SIMON. Therefore, \$172,000 was what was left out of the dividend after reimbursing yourself for the cost?

Mr. MINTZ. Yes. There were other factors over here that I would like to bring out.

Mr. SIMON. I am sure there are hundreds of other factors.

Mr. PODELL. At least let's say this: That may have been reimbursement for the cost to them but it was not reimbursement for the market value of the property at the time they transferred it to the corporation.

Mr. SIMON. I am sure the market value went up every week.

Mr. PODELL. I am sure you will even be able to agree to that.

Mr. SIMON. Let's make sure these figures are right. You got \$216,000 in dividends and the only cost that wasn't included in the figures that we had earlier was the lands; is that right?

Mr. MINTZ. That is right.

Mr. SIMON. So there is \$172,000 out of the mortgage money after reimbursing?

Mr. MINTZ. No. That is not so. There is another figure of thirty-some thousand dollars.

Mr. SIMON. Builder's fee?

Mr. MINTZ. No, profits on rental operations.

Mr. SIMON. How did you rent it before it was finished?

Mr. MINTZ. We ran the property for a while.

Mr. SIMON. For how long?

Mr. PODELL. There were three different units. The entire thing was not completed until approximately the time that Mr. Mintz stated. However, one unit at a time did become completed and there were rental operations.

Mr. SIMON. Let's go back, Mr. Mintz, to the figures we had a little while ago. The mortgage proceeds exceeded all of the costs, including the land, by \$138,000; is that right?

Mr. MINTZ. That is right.

Mr. SIMON. And you got a \$30,000 builder's fee out of these costs; is that right?

Mr. MINTZ. That is right.

Mr. SIMON. So when you finished the building, without getting a penny of income from the rents—

Mr. MINTZ. Just a second. That isn't right. That \$30,000 was turned over to a building corporation, that used up those funds.

Mr. SIMON. What was the \$30,000 for? Wasn't that a builder's fee?

Mr. MINTZ. That was part of the builder's fee, that is right.

Mr. SIMON. After paying that builder's fee, all of the costs, including the cost of the land, builder's fee that you got and everything else, the costs were still \$138,000 less than the mortgage proceeds?

Mr. MINTZ. That is right.

Mr. SIMON. And the difference between that and the dividend you gave yourself is the rental income you collected the first couple of months; is that right?

Mr. MINTZ. That is right.

Mr. SIMON. Then you sold it 2 months after it was completed for \$85,000 or \$90,000?

Mr. MINTZ. That is right.

Mr. SIMON. Thank you.

Mr. MINTZ. May I say a few words? Everybody else was given the courtesy.

Senator BUSH (presiding). Any questions, Senator?

Senator PAYNE. No.

Senator BUSH. Senator Beall?

Senator BEALL. No questions.

Senator BUSH. Do you want to make a statement?

Mr. MINTZ. I want to give a breakdown of the \$216,000.

Senator BUSH. Will you kindly proceed.

Mr. MINTZ. That is all I have.

Senator BUSH. Thank you very much.

Mr. Benjamin Neisloss. Mr. Neisloss, will you raise your right hand, please?

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF BENJAMIN NEISLOSS, BROOKSIDE GARDENS, SOMERVILLE, N. J., ETC., ACCOMPANIED BY MELVIN WEINER, ACCOUNTANT**

Mr. NEISLOSS. I do.

Senator BUSH. Please be seated and give your correct name and address to the reporter.

Mr. NEISLOSS. Benjamin Neisloss, 110—

Mr. SIMON. Would you say it out loud?

Mr. NEISLOSS. 11005 70th Road, Forest Hills, N. Y.

Mr. SIMON. Is that Neisloss?

Mr. NEISLOSS. Neisloss, yes.

Mr. Chairman, may I say this: Mr. Weiner is our accountant, and he is here in case of any accurate figures wanted.

Mr. SIMON. Mr. Neisloss, you are connected with Brookside Gardens Apartments?

Mr. NEISLOSS. I was, sir.

Mr. SIMON. You built it?

Mr. NEISLOSS. We built it; yes, sir.

Mr. SIMON. Where is that located?

Mr. NEISLOSS. It is located in Somerville, N. J.

Mr. SIMON. Somerville, N. J.?

Mr. NEISLOSS. Yes, sir.

Mr. SIMON. How big a project was it?

Mr. NEISLOSS. It was in units or area?

Mr. SIMON. Units.

Mr. NEISLOSS. 444 units, sir.

Mr. SIMON. What was the name of the corporation that was the sponsor?

Mr. NEISLOSS. Brookside Gardens, Inc.

Mr. SIMON. Brookside Gardens, Inc.?

Mr. NEISLOSS. Yes, sir.

Mr. SIMON. What was the capital stock of Brookside Gardens, Inc.?

Mr. NEISLOSS. \$30, sir.

Mr. SIMON. \$30?

Mr. NEISLOSS. Yes, sir.

Mr. SIMON. As I understand it, you had \$10 worth of stock and your brother—

Mr. NEISLOSS. Yes.

Mr. SIMON. Your brother Harry had \$10 worth, and a man named Bronstein.

Mr. NEISLOSS. Yes, sir.

Mr. SIMON. What is his first name?

Mr. NEISLOSS. Benjamin.

Mr. SIMON. What was the amount of the mortgage?

Mr. NEISLOSS. \$3,018,500.

Mr. SIMON. What was the total cost of the land, the buildings, and all the financing charges?

Mr. NEISLOSS. \$2,642,884.32.

Mr. SIMON. That includes the land and the building and financing and everything else?

Mr. NEISLOSS. That is right.

Mr. SIMON. Everything is included in there?

Mr. NEISLOSS. Yes.

Mr. SIMON. And that cost is \$375,616 less than the amount of the mortgage?

Mr. NEISLOSS. Yes. May I say at this time that there are no architect's fees in this.

Mr. SIMON. Were you your own architect?

Mr. NEISLOSS. Mr. Bronstein is the architect.

Mr. SIMON. You also then received a premium of \$150,000 on the mortgage?

Mr. NEISLOSS. That was made to the Trust Co. of New Jersey, which in turn turned it over to us.

Mr. SIMON. So you got the \$150,000?

Mr. NEISLOSS. That is correct, sir.

Mr. SIMON. So that the total proceeds of the mortgage—the money you received on the sale of the mortgage—was \$525,616 more than the total cost?

Mr. NEISLOSS. The addition of the excess and the premium; that is correct, sir.

Mr. SIMON. The total proceeds in excess of the total costs were \$525,616?

Mr. NEISLOSS. That is correct.

Mr. SIMON. When was the building completed?

Mr. NEISLOSS. It was completed in the end of 1946, I think, or the early part of 1947.

Mr. SIMON. Wasn't it the latter part of 1947 and early 1948?

Mr. WINER. I think it was the latter part of 1947.

Mr. NEISLOSS. You may be correct about that, sir.

Mr. SIMON. At any rate, around 1947 or 1948?

Mr. NEISLOSS. Not 1948.

Mr. SIMON. 1947?

Mr. NEISLOSS. 1946 or 1947.

Mr. SIMON. You had another project called Somerville Gardens.

Mr. NEISLOSS. We had built three other projects in Somerville before that.

Mr. SIMON. Was one of those Monroe Gardens, Inc.?

Mr. NEISLOSS. No. Monroe Gardens, Inc., was not in Somerville, sir. That was in Hillside, N. J.

Mr. SIMON. What about the Springfield Development?

Mr. NEISLOSS. That came later. That was built in New York.

Mr. SIMON. When was that built?

Mr. NEISLOSS. 1947 or 1948. I think it was completed in 1949, sir.

Mr. SIMON. What was the amount of the mortgage there?

Mr. NEISLOSS. The amount of the mortgage on the Springfield Development was \$4,174,800.

Mr. SIMON. And where was that property?

Mr. NEISLOSS. That was on Springfield Boulevard, between 64th and —64th Avenue and 67th Avenue, I think it is, in Bayside.

Mr. SIMON. In Bayside, Long Island?

Mr. MINTZ. That is correct, sir.

Mr. SIMON. How many units?

Mr. NEISLOSS. Springfield Development had 480 units.

Mr. SIMON. Now, what was the name of the corporation that was the sponsor?

Mr. NEISLOSS. Pardon?

Mr. SIMON. What was the name of the corporation that was the sponsor?

Mr. NEISLOSS. Springfield Development Co., Inc.

Mr. SIMON. What was the capital stock of Springfield Development?

Mr. NEISLOSS. Thirty dollars, plus the capital stock. The capital stock was \$30.

Mr. SIMON. It built this 480-unit project?

Mr. NEISLOSS. Yes, sir.

Mr. SIMON. What was the complete cost of the project?

Mr. NEISLOSS. The complete cost was \$3,919,039.29.

Mr. SIMON. Does that amount include the cost of the land?

Mr. NEISLOSS. No, sir. That is a leasehold.

Mr. SIMON. This is erected on a leasehold?

Mr. NEISLOSS. That is correct.

Mr. SIMON. Of course, the mortgage doesn't cover the land; does it?

Mr. NEISLOSS. That is correct. The mortgage does not.

Mr. SIMON. The mortgage does not?

Mr. NEISLOSS. Does not cover the land; no, sir.

Mr. SIMON. The mortgage was \$4,174,800?

Mr. NEISLOSS. That is right.

Mr. SIMON. And the total costs of everything covered by the mortgage was \$3,919,039.29?

Mr. NEISLOSS. That is correct.

Mr. SIMON. Was there a premium there?

Mr. NEISLOSS. There was a premium there paid over a period of 4 years, sir.

Mr. SIMON. How much was it?

Mr. NEISLOSS. I think it was about \$120,000.

Mr. SIMON. One hundred and twenty thousand dollars?

Mr. NEISLOSS. About 3 percent; \$120,000.

Mr. SIMON. Then the total proceeds of the mortgage were \$375,000 more than the total costs; is that right?

Mr. NEISLOSS. Well, of course, you are adding the premium into it.

Mr. SIMON. You got the money; didn't you?

Mr. NEISLOSS. Over a period of 4 years.

Mr. SIMON. You have got it all now?

Mr. NEISLOSS. That is right. You are adding it all into the mortgage. Again there, Mr. Simon, I say here these figures do not include architect's fees.

Mr. SIMON. And one of your partners was the architect who did the work?

Mr. NEISLOSS. That is right. No charge is added in here for that.

Mr. SIMON. What was the cost of the land on that project?

Mr. NEISLOSS. \$81,600.

Mr. SIMON. \$81,600; and who owns the land?

Mr. NEISLOSS. The wives of the three of us, sir.

Mr. SIMON. Your wife, your brother's wife, and the architect's wife?

Mr. NEISLOSS. That is right.

Mr. SIMON. Did they pay \$81,000 for it?

Mr. NEISLOSS. They did, sir.

Mr. SIMON. When did they buy it?

Mr. NEISLOSS. 1946 or 1947.

Mr. SIMON. When was this building built?

Mr. NEISLOSS. 1947 and 1948, and I think it was completed in 1949.

Mr. WEINER. Started in 1948.

Mr. NEISLOSS. Started in 1948 and completed in 1949.

Mr. SIMON. What valuation did FHA put on this land?

Mr. NEISLOSS. \$404,700.

Mr. SIMON. They paid \$81.6 for it and FHA valued it at \$404,000?

Mr. NEISLOSS. That is right.

Mr. SIMON. Based on that valuation, your wives get an income for 99 years of a little better than \$16,000 a year?

Mr. NEISLOSS. That is right.

The CHAIRMAN. Is that for 99 years?

Mr. NEISLOSS. That is a 99-year renewal.

The CHAIRMAN. A 99-year lease. Another 99?

Mr. NEISLOSS. That is right.

The CHAIRMAN. Another 99. You won't get much good out of that.

Mr. NEISLOSS. Not out of the first 99.

Mr. SIMON. Another project was the Springfield Development.

Mr. NEISLOSS. Yes, sir; within the same area.

Mr. SIMON. What was the name of the corporation that built that?

Mr. NEISLOSS. Hill Development Co., Inc.

Mr. SIMON. That is located in Bayside, Long Island?

Mr. NEISLOSS. Same area as Springfield.

Mr. SIMON. What was the capital stock?

Mr. NEISLOSS. \$30.

Mr. SIMON. What was the total mortgage?

Mr. NEISLOSS. \$1,926,800.

Mr. SIMON. What was the total cost?

Mr. NEISLOSS. \$1,822,727.42.

Mr. SIMON. And neither the mortgage nor the costs includes the lands; is that right?

Mr. NEISLOSS. That is right.

Mr. SIMON. This is another leasehold?

Mr. NEISLOSS. That is another leasehold.

Mr. SIMON. Was there a premium on the mortgage there?

Mr. NEISLOSS. Same thing, Prudential Insurance in both cases.

Mr. SIMON. How much was the premium?

Mr. NEISLOSS. That would be about \$57,000.

Mr. SIMON. The mortgage proceeds including the premium were \$161,000 more than the costs; is that right?

Mr. NEISLOSS. The mortgage proceeds, including the premium, would be about \$180,000. This is Hill Development Co. There should be deducted from these mortgage premiums about \$25,000 from the total premiums by reason of the fact that we had an accountant who died just about this time, and his estate made a claim on the premium, for his services, and having acted in this connection, and the estate got about \$25,000.

Mr. SIMON. Is that \$25,000 for both jobs?

Mr. NEISLOSS. That would be distributed for both jobs.

Mr. WEINER. Hill and Springfield.

Mr. SIMON. In the second one did your wives own the land there, too?

Mr. NEISLOSS. That is right.

Mr. SIMON. How much did your wives pay for that land?

Mr. NEISLOSS. \$38,400.

Mr. SIMON. How much did FHA value the land at?

Mr. NEISLOSS. \$180,800.

Mr. SIMON. There they get about \$8,000 a year?

Mr. NEISLOSS. \$7,600.

Mr. SIMON. \$7,600 a year for 99 years?

Mr. NEISLOSS. That is right.

The CHAIRMAN. If FHA has to repossess the property, did he enter into a contract with them they were to pay X amount of money for the privilege?

Mr. NEISLOSS. That would be the recapture figure.

The CHAIRMAN. What was the recapture figure?

Mr. NEISLOSS. The figure I gave you, \$404,000, and \$190,000 in the second one.

The CHAIRMAN. In other words, FHA would have to pay that amount to repossess the building?

Mr. NEISLOSS. That is right, the land.

Mr. SIMON. In addition, you built a section 213 project in 1952 called Mitchell Gardens?

Mr. NEISLOSS. That is right, sir.

Mr. SIMON. That is a cooperative housing project?

Mr. NEISLOSS. That is right.

Mr. SIMON. Do the cooperative housing owners own the land?

Mr. NEISLOSS. No, sir.

Mr. SIMON. Who owns the land?

Mr. NEISLOSS. That is held by a trust fund composed of the family; is that right?

Mr. WEINER. That is right.

Mr. NEISLOSS. A trust composed of the family.

Senator BUSH. Your family?

Mr. NEISLOSS. Our three families.

Mr. SIMON. How much did you pay for the land?

Mr. NEISLOSS. \$325,000.

Mr. SIMON. How much did FHA value the land for?

Mr. NEISLOSS. I think it was close to—there were three separate—

Mr. SIMON. Was the valuation on the three tracts about \$700,000?

Mr. WEINER. \$703,000.

Mr. SIMON. You paid \$325,000 and it is valued at \$703,000.

Mr. NEISLOSS. That is right.

The CHAIRMAN. Why did FHA value this land for so much more in each instance? It is not only in your case but practically every case in Greater New York. Why did they value it at so much more than you paid for it originally?

Mr. NEISLOSS. Sir, we bought a piece of land below grade, swamp-land almost, and we built it up.

Mr. SIMON. The cooperative owners have to pay your family \$28,000 a year rent for 99 years?

Mr. NEISLOSS. That is right.

Mr. SIMON. Then you built Linden Hill?

Mr. NEISLOSS. That is in process. That is under construction.

Mr. SIMON. Is that built on leased land?

Mr. NEISLOSS. That is leased land, yes.

Mr. SIMON. How much did you pay for that land?

Mr. NEISLOSS. \$545,000.

Mr. SIMON. How much did FHA value the land for?

Mr. NEISLOSS. I think the valuation of that is \$740,000.

Mr. SIMON. \$740,000?

Mr. NEISLOSS. That is right.

Mr. SIMON. That would mean a \$30,000 a year rent for 99 years?

Mr. NEISLOSS. That is right.

Mr. SIMON. Why were all these cases, the land was merely leased to the cooperative project instead of sold to it?

Mr. NEISLOSS. Because the cooperators would have had to pay for the land, sir.

Mr. SIMON. Wouldn't they be better off by buying the land at the price you paid for it rather than paying rent double that amount for about 99 years?

The CHAIRMAN. You say the FHA in every one of these instances allowed you \$404,000. They allowed you \$700. That was part of the mortgage.

Mr. NEISLOSS. No, sir.

Mr. SIMON. The rental for the land must come out of income.

The CHAIRMAN. It was not figured in the proceeds of the mortgage?

Mr. NEISLOSS. No.

The CHAIRMAN. It would have been had you sold them the land. Under this basis it was not.

Mr. NEISLOSS. That is right.

Mr. SIMON. Wouldn't the cooperative owners be better off to buy the land and have this covered by the mortgage and pay it off—

Mr. NEISLOSS. Mr. Simon, there is just more than purchase of the land. There is a lot in the—

Mr. SIMON. It seemed to be the practice in New York when a builder built a cooperative housing project, to keep the land out, and merely lease it. In fact, almost every one the builder merely leases the land for 99 years. I am wondering if the cooperative owners wouldn't have been better off if the land were—

Mr. NEISLOSS. If you use the figure of \$325,000 as against \$700, first of all they would have to put up the additional money but the point is this: There is more than goes into that land. The downpayment would have been prohibitive. They couldn't afford to pay it.

Mr. SIMON. They could have got a higher mortgage, couldn't they?

Mr. NEISLOSS. I don't think so, sir.

Mr. SIMON. In any event on these 3 projects, which were built under section 608, your capital stock in each case was \$30.

Mr. NEISLOSS. That is right.

Mr. SIMON. And the mortgage proceeds exceeded the costs by \$525,000 in the first, \$375,000 in the second, \$160,000 in the third, and then we have to take off \$25,000 that you paid your architect.

Mr. NEISLOSS. That is on Springfield and Hill.

Mr. WEINER. Not the architect.

Mr. SIMON. I am sorry, the auditory.

Mr. NEISLOSS. The accountant.

Mr. SIMON. It makes an excess of mortgage proceeds over cost of \$1,035,000 on the 3 projects; is that correct?

Mr. NEISLOSS. If that arithmetic is correct, sir, it is correct.

Mr. SIMON. Thank you, sir.

Senator BUSH. Any questions?

Senator BEALL. No questions.

Senator BUSH. Thank you very much.

Our next witness is Mr. Samuel J. Roth. Will you stand and raise your right hand, please?

Do you swear the testimony you will give before this committee is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ROTH. I do.

Senator BUSH. Thank you.

TESTIMONY OF SAMUEL J. ROTH, ELMWOOD GARDENS,  
EAST PATERSON, N. J., ETC.

Senator BUSH. Speak into the microphone and give your name, please.

Mr. ROTH. Samuel J. Roth, 865 West End Avenue, New York City.

Mr. SIMON. Mr. Roth, you are one of the sponsors of Elmwood Gardens; is that right?

Mr. ROTH. That is right, sir.

Mr. SIMON. Where is Elmwood Gardens located?

Mr. ROTH. In East Paterson, N. J.

Mr. SIMON. How large a project is it, in units?

Mr. ROTH. Elmwood Gardens was part of a dual project. It was Elmwood Gardens and Elmwood Knolls. There are approximately six-hundred-some-sixty-odd families.

Mr. SIMON. Six hundred and sixty units?

Mr. ROTH. That is right.

Mr. SIMON. What was the total mortgage on both units? Was it five million six—

Mr. ROTH. \$5,690,000.

Mr. SIMON. What was the capital stock of the two corporations?

Mr. ROTH. Common stock, \$2,000.

Mr. SIMON. That is \$1,000 from each?

Mr. ROTH. Plus the FHA nominal preferred, and loans totaling \$625,000.

Mr. SIMON. The loans were all repaid out of the mortgage money, weren't they?

Mr. ROTH. At the completion of the project.

Mr. SIMON. The only capital stock was a thousand dollars of common and a hundred dollars of preferred to the FHA in each corporation?

Mr. ROTH. That is right.

Mr. SIMON. And the total mortgages were \$5,690,000?

Mr. ROTH. That is right, sir.

Mr. SIMON. What was the total cost of construction, including the cost of the land and interest and financing charges and everything else?

Mr. ROTH. \$5,128,878.09.

Mr. SIMON. And that is roughly \$560,000 less than the amount of the mortgage?

Mr. ROTH. That is right.

Mr. SIMON. Was there any premium paid there?

Mr. ROTH. Yes, sir.

Mr. SIMON. What was the amount of the premium?

Mr. ROTH. There was \$227,600.

Mr. SIMON. And did you receive that?

Mr. ROTH. That was received by the contracting corporation.

Mr. SIMON. And who were the owners of the contracting corporation?

Mr. ROTH. That was a subsidiary of the Gregory-Roth-Schenker Corp. and they were not identical in stock interest as the owners of the mortgagor corporation.

Mr. SIMON. Who were the stockholders of Elmwood Gardens and Elmwood Knolls?

Mr. ROSENBERG. There was testimony given as to that, Mr. Simon, in Washington.

Mr. SIMON. I understand. We would like to have it for the record here.

Substantially the same stockholders owned both companies, didn't they, Mr. Roth?

Mr. ROTH. No, sir. They were—a portion of the stockholders of the Gregory-Roth-Schenker Corp. and its affiliate, and in addition thereto were another group of stockholders working through a Mr. Gilbert.

Mr. SIMON. Will you give us the stockholders of the group that got the \$227,000 premium, and the stockholders of the sponsoring corporation?

Mr. ROTH. Mr. Simon, I would like to dwell on that question a bit. The Gregory-Roth-Schenker Corp. were contractors, Elmwood Construction Corp. received and accepted the premium on the mortgage in compensation for the services in placing the mortgage, the paying of architectural fees and acting as contractors, and the stockholders of the Gregory—the stockholders of the Gardens and Knolls were divided, class A stock, Harry Ginsberg, Marcel Weiss, Samuel Siegel; and class B stock, Samuel Roth, Joel Schenker, George Gregory, Pincus Flijerris, Elizabeth Gregory and Rosen and Choron, trustees, Andre Gregory, Peter Gregory, and Alexis Gregory.

Mr. SIMON. And how about Gregory-Roth-Schenker, who are the stockholders of that?

Mr. ROTH. The stockholders in that is substantially the group that I just read off as owners of the common class B stock in the Gardens and Knolls, plus Anna Roth, Daniel Roth, and Helen Schneider.

Mr. SIMON. What percentage of the stock in the building corporation was owned by the group that owned the Gregory-Roth-Schenker Co.?

Mr. ROTH. That was a wholly owned subsidiary; in the building company.

Mr. SIMON. You said that the B stockholders of the building company were the same people.

Mr. ROTH. No; the B stockholders of Elmwood Gardens and Knolls were the stockholders of the Gregory-Roth-Schenker Corp.

Mr. SIMON. What proportion of the total stock did those B stockholders own?

Mr. ROTH. Of the mortgage corporations?

Mr. SIMON. Yes.

Mr. ROTH. 575 shares out of a total of 1,000.

Mr. SIMON. So the people who got the premium owned 57 percent of the company that built the building?

Mr. ROTH. That is right.

Mr. SIMON. Now there is a Marine Terrace. Is that a project you built?

Mr. ROTH. Yes, sir.

Mr. SIMON. Where is that?

Mr. ROTH. That is in Astoria, Long Island.

Mr. SIMON. How many units?

Mr. ROTH. Marine Terrace was 1 of 3 projects in the immediate area. There was a total of 1,338 families, of which Marine was approximately 405.

Mr. SIMON. What were the names of the other two?

Mr. ROTH. Gregory Apartments and Elisabeth Apartments.

Mr. SIMON. The same people owned the stock in each of the three companies?

Mr. ROTH. Substantially; yes, sir.

Mr. SIMON. What was the capital stock of Marine Terrace? That is, the money paid in for the stock.

Mr. ROTH. A thousand dollars in each corporation.

Mr. SIMON. In each one. What was the total mortgages on the three corporations?

Mr. ROTH. \$11,016,000.

Mr. SIMON. Was that project built on leased land?

Mr. ROTH. No, sir.

Mr. SIMON. What was the cost of the land?

Mr. ROTH. \$791,098.74.

Mr. SIMON. Who was it purchased from?

Mr. ROTH. It was purchased from a syndicate who owned it previously, and were building two-family houses on a portion of it.

Mr. SIMON. Were you or your group members of the syndicate?

Mr. ROTH. No, sir. One of the members of our group, the previous owners were Mollie Derringer, Lila Kessler, Janet Hess, Jean Van Dycke Kessler, Elisabeth Gregory, and Herman Rosen, and Chron, trustees for three Gregories.

Mr. SIMON. What was the total cost of the project including the cost of the land?

Mr. ROTH. \$9,881,427.13.

Mr. SIMON. That included all of your costs?

Mr. ROTH. Yes, sir.

Mr. SIMON. And that was \$1,134,573 less than the mortgage?

Mr. ROTH. That is right, sir.

Mr. SIMON. Was there a premium on that mortgage?

Mr. ROTH. Yes, sir.

Mr. SIMON. How much was that premium?

Mr. ROTH. \$413,100.

Mr. SIMON. Who got that premium?

Mr. ROTH. That was gotten by the Gregory, Roth, Schenker Corp., on the same basis as the Gardens and Knolls.

Mr. SIMON. Well then on these two projects, your construction company, the stockholders of which owned 57 percent of the building company, received \$640,000 on premiums on the mortgages—

Mr. ROTH. Yes, sir.

Mr. SIMON. And in addition to that the face amount of the mortgage exceeded the total costs of land, building and financing by \$1,695,897, is that right?

Mr. ROTH. That is right, sir.

Mr. SIMON. When were these buildings completed?

Mr. ROTH. The Astoria buildings, final completion closing with the FHA, was January 27, 1949.

Mr. SIMON. When was the closing of the Marine Gardens project?

Mr. ROTH. Marine Terrace—well, I read the final date. I will give you it separately. Marine Terrace was December 9, 1948. The Gregory Apartments was December 22, 1948, and the Elisabeth Apartments was January 27, 1949.

Mr. SIMON. Shortly after the completion of the building, and out of excess mortgage proceeds, was there a total of \$2,276,044 distributed to the stockholders?

Mr. ROTH. You are speaking now of the three Astoria projects?

Mr. SIMON. The three Astoria projects alone were \$1,671,544?

Mr. ROTH. That is right, sir.

Mr. SIMON. The other figure of \$658,000 is what you sold the project for?

Mr. ROTH. That was sold. There is no distribution there as such.

Mr. SIMON. That was the sale price when you sold it, is that right?

Mr. ROTH. That was the sale price of the Elmwood Gardens and Knolls, in combination, as distinguished from the Astoria jobs.

Mr. SIMON. That is right.

Now, going back to the mortgage proceeds, the mortgage proceeds—and by “mortgage proceeds” I mean the face amount of the mortgage plus the premium, and I realize that the premium did not go to the identical same people who owned the project, because your group got 100 percent of the premium and only owned 58 percent of the stock but the proceeds of the mortgage, including premium, were \$2,336,000 in excess of the total costs of the two projects, is that right?

Mr. ROTH. I assume your arithmetic is correct. Approximately that is—I would say that sounds right.

Mr. SIMON. Thank you, sir.

Senator BUSH. Any questions, Senator Payne?

Senator PAYNE. No.

Senator BUSH. Senator Beall?

Senator BEALL. No questions.

Senator BUSH. You are excused. Thank you.

The next witness is Mr. Norman Tishman. Mr. Tishman, will you stand and raise your right hand, please?

Do you solemnly swear the testimony that you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF NORMAN TISHMAN, REGO PARK APARTMENTS, ELMHURST, N. Y.

Mr. TISHMAN. I will.

Senator BUSH. Will you give your correct name and address to the clerk, please?

Mr. TISHMAN. Norman Tishman, 1000 Old Mamaroneck Road, Mamaroneck, N. Y.

Senator BUSH. Mr. Simon.

Mr. SIMON. Mr. Tishman, I am sorry, but I didn't hear you give your name and address. Is the address 445 Park Avenue, New York?

Mr. TISHMAN. That is my office address.

Mr. SIMON. Are you connected with the Rego Park Apartments project?

Mr. TISHMAN. Yes, sir.

Mr. SIMON. Where is that located?

Mr. TISHMAN. That is located at the southeast corner of 84th Street and Dry Harbor Road in Elmhurst, Long Island.

Mr. SIMON. And how large a project is that? I mean by that in number of units.

Mr. TISHMAN. Approximately 800 apartments, about 3,000 rooms.

Mr. SIMON. What is the name of the corporation that owned the project?

Mr. TISHMAN. Rego Park Apartments, Inc., and Rego Park Apartments No. 2., Inc.

Mr. SIMON. What is the capital stock of each of those companies?

Mr. TISHMAN. May I explain that these corporations are wholly owned subsidiaries of Tishman Realty & Construction Co., Inc.?

Mr. SIMON. What is their capital stock?

Mr. TISHMAN. The capital stock of all wholly owned subsidiaries, including these, is \$1,000 for each corporation.

Mr. SIMON. And the capital stock of Rego Park Apartments and the capital stock of Rego Park Apartments, No. 1., Inc., is in each case \$1,000?

Mr. TISHMAN. That is right.

Mr. SIMON. Plus \$100 of preferred stock for the FHA Commissioner?

Mr. TISHMAN. Yes, sir.

Mr. SIMON. What is the amount of the mortgage?

Mr. TISHMAN. Do you want me to give you these figures as combined figures of the two projects, or individually?

Mr. SIMON. If you will, please.

Mr. TISHMAN. The total of the two mortgages is \$6,457,400.

Mr. SIMON. And what was the premium on the mortgage?

Mr. TISHMAN. The premium was \$274,439.50.

Mr. SIMON. The project was built on leased land?

Mr. TISHMAN. That is correct.

Mr. SIMON. What is the total cost of the project, including everything except the land, which was not included in the mortgage?

Mr. TISHMAN. The total cost was \$4,987,176.60, exclusive of any builder's fees.

Mr. SIMON. Was there a builder's fee paid to anyone?

Mr. TISHMAN. No; this, as I said, is a wholly owned subsidiary of Tishman Realty and we do our own construction.

Mr. SIMON. Does \$4,987,176 include everything you paid to anybody in connection with the construction of this project?

Mr. TISHMAN. It is, if you exclude any allocation for builder's fees.

Mr. SIMON. Did you pay a builder's fee to anybody?

Mr. TISHMAN. No; we did not. We did our own building.

Mr. SIMON. Then it includes all sums that you paid anybody for anything?

Mr. TISHMAN. Yes, sir.

Mr. SIMON. And the total costs are \$1,744,854 less than the mortgage proceeds; is that right?

Mr. TISHMAN. If you include the mortgage bonus as part of your reduction of building costs.

Mr. SIMON. No; I include it as part of the proceeds of the mortgage.

Mr. TISHMAN. Yes; if you add that to the mortgage.

Mr. SIMON. The total proceeds you received were the \$6,457,400 face amount of the mortgage, plus the \$274,430 premium?

Mr. TISHMAN. That is right.

Mr. SIMON. You received that?

Mr. TISHMAN. Yes, sir.

Mr. SIMON. You paid out the other and the surplus of cash over—the surplus of proceeds or income over disbursement was \$1,744,654?

Mr. TISHMAN. That is correct.

Mr. SIMON. Now, the land on which the project is located is not covered by the mortgage; is that right?

Mr. TISHMAN. No, sir.

Mr. SIMON. And how much did you pay for the land?

Mr. TISHMAN. The land cost was \$523,415.77.

Mr. SIMON. And what valuation did FHA put on the land? Was it \$779,000?

Mr. TISHMAN. \$779,000.

Mr. SIMON. And that calls for an annual rental for 99 years of \$31,120 a year?

Mr. TISHMAN. That is right.

Mr. SIMON. Is that right?

Mr. TISHMAN. That is right.

Mr. SIMON. Is there a mortgage on the land?

Mr. TISHMAN. Yes; there is a mortgage.

Mr. SIMON. How much is the mortgage on the land?

Mr. TISHMAN. The combined mortgages, \$701,100.

Mr. SIMON. That is 90 percent of the FHA appraised value; is that right?

Mr. TISHMAN. Yes, sir.

Mr. SIMON. So that on the land you received approximately \$177,000 in mortgage proceeds in addition to your costs—in excess of your costs; is that right?

Mr. TISHMAN. Yes, sir.

Mr. SIMON. And that is in addition to the \$1,744,000 excess proceeds over costs on the building?

Mr. TISHMAN. That is right.

Mr. SIMON. And of the excess proceeds over cost on the building, you distributed to yourselves shortly after completion of the building, \$1,700,000; is that right?

Mr. TISHMAN. That was the distribution from Rego Park Apartments to Tishman Realty Co.

Mr. SIMON. Out of the excess mortgage funds?

Mr. TISHMAN. Yes, sir.

Mr. SIMON. Thank you, sir.

Senator BUSH. Any questions, Senator Beall?

Senator BEALL. No questions.

Senator BUSH. Senator Payne?

Senator PAYNE. No questions.

Senator BUSH. Thank you very much.

The CHAIRMAN. We have one more witness after we have finished with Mr. Traub. We will recess then until Thursday morning at 10 o'clock. Senator Bush will be presiding on Thursday and Friday.

There are four Senators here: Bush, Payne, Beall, and myself. We secured a ruling from the legislative counsel in Washington. That is the counsel who advises the Congress on matters of this kind and they tell us we have the legal right to subpoena your records, and therefore we are asking you to please deliver the records to us.

**TESTIMONY OF ABRAHAM TRAUB, FARRAGUT GARDENS, BROOKLYN, N. Y., ETC., ACCOMPANIED BY MILTON C. WEISMAN, COUNSEL—Resumed**

Mr. WEISMAN. I take it then that since my brief is a part of the record—

The CHAIRMAN. It is a part of the record.

Mr. WEISMAN. And for the expedition, instead of my making this long argument and setting forth the various points contained in the brief—

The CHAIRMAN. You have the right to either deliver them to us at this time or you have the right to refuse to do so, whichever you choose.

Mr. WEISMAN. I understand that. If I refuse to do so I also understand it is on pain of contempt.

The CHAIRMAN. That is right.

Mr. WEISMAN. I am merely following what the Supreme Court has said is the procedure I should take to adequately protect my client's interest, and as I read the cases the Supreme Court has said in explicit terms that I am entitled to a ruling on each question or objection raised, a statement from the committee that they have considered the objection, and that they have overruled it, and do direct me to thereupon turn over the records.

The CHAIRMAN. You have it exactly right. That is exactly what it is.

Mr. WEISMAN. I take it then so that I may be free—because I will say in candor I don't propose to let my client run the pain of contempt, but I do propose to safeguard his interests and since I deem, with all due respect, that this subpoena is improper, that it is an unlawful search and seizure, contrary to constitutional safeguards, I shall at the proper time move to quash all of the evidence that has been taken. That has also been said by the Supreme Court. The Supreme Court saying that a constitutional committee can no more be enjoined from doing an unconstitutional thing than could the legislature itself be enjoined from passing a constitutional law. I therefore will say to the committee that in view of the ruling, which is that they have considered each and every one of the points, and that they specifically overrule it, and warn me now that if I do not comply with the direction of the committee that my client stands in pain of indictment for contempt by certification—

The CHAIRMAN. We haven't said that yet, but then—

Mr. WEISMAN. I assume that follows.

The CHAIRMAN. It no doubt will, but we haven't as yet said it.

Mr. WEISMAN. I therefore state to the committee that in view of their ruling, the books are here, and they will be turned over to the committee.

Before I do so, however, I wish the committee to know that pursuant to Senator Capehart's direction, as chairman of this committee, that between the lunch recesses and now, the representative of the committee has, with a representative of mine, checked the books and all of the books which they saw at the first instance are still here. They are the same books as they heretofore set forth and there is nothing missing. I would also like to have a receipt from the committee for these books, and with due humility I would like to ask for some reasonable date when all of my client's books will be returned to him.

The CHAIRMAN. I think we can certainly finish with them in 2 weeks.

Mr. SIMON. Two or three weeks at the most.

The CHAIRMAN. This is September 28. Let's say October 15.

Mr. WEISMAN. May I say this—

The CHAIRMAN. First let me say this to you: You have already agreed to turn over the books.

Mr. WEISMAN. I haven't agreed. I am going to turn them over at the direction of this committee, overruling my objections.

The CHAIRMAN. You are going to turn them over. Let me say this to you: While we will have all the books and we will have access to all the information within those books, that I am going to personally instruct the men from the General Accounting Office to only be concerned with those things that have to do with FHA.

Mr. WEISMAN. Thank you for that.

The CHAIRMAN. And that they are not to go into anything other than those things that are pertinent to our investigation; that there may be other things in the books, other than that, and if so they are to ignore it, but they are to take your books and records just as you are turning them over to us and go through them, and dig out all the information that has to do with this hearing and has to do with FHA. They are not to touch those things that have nothing to do with the subject matter.

Mr. WEISMAN. Senator, as a practical matter, how shall we get our books back? Shall I apply to you? We have an urgent need for these books.

The CHAIRMAN. We are directing the staff at this moment, and that includes the general counsel as well as the staff, to finish with the audit no later than October 15.

Senator Payne.

Senator PAYNE. Mr. Chairman, do I understand that this pertains also to the current books, the current checkbooks and records that the company operates under?

Mr. WEISMAN. We have given you all of our books right down to date, except our current checkbook, which we need to draw checks from day to day and to make deposits in our bank, and you have every other book that we have.

Senator PAYNE. I was just curious, because I didn't feel it was proper for him to just stop business as of that date. You have got obligations to meet and I was curious to see whether or not current and necessary books that you need to keep his business going are not withheld.

Mr. WEISMAN. We have asked the bookkeeper—we are doing business from our checkbook, Senator, and that is one of the reasons why I asked that these books be returned as promptly as possible.

Another reason is that by virtue of the publicity that has been—

The CHAIRMAN. We don't need your 1954 books. You are not turning those over to us.

Mr. WEISMAN. Yes; you have the 1954 books here. We have given you everything.

The CHAIRMAN. We don't need those. We are going to give you a receipt for them. On October 15 we will return them to you and ask you to give us a receipt.

Mr. WEISMAN. I will be delighted.

The CHAIRMAN. We will instruct the staff to finish by October 15. Also I am instructing the staff publicly as a matter of this record that they are only to deal with matters that have to do with this hearing. That ought to make everybody happy.

Mr. WEISMAN. I thank the Senate committee.

May I ask, so if we want to, for example, something comes up and we want to go to the books, where will they physically be?

The CHAIRMAN. We will take the books physically, I think, to Washington and they will work on them in room F-41, in the Capitol.

Mr. SIMON. We will take them over to the General Accounting Office, Senator.

The CHAIRMAN. The General Accounting people suggest they take them to the General Accounting Office.

Mr. WEISMAN. In Washington?

The CHAIRMAN. Yes, sir. The man I am going to make personally responsible for them is Mr. Regis McManus. He will give you the receipt, he will be held a hundred percent responsible for the physical condition of the books while they are away from your care and he will return them to you on October 15. They will be at the General Accounting Office in Washington during the time they are not in your possession.

Mr. WEISMAN. I see a representative of the General Accounting Office here.

The CHAIRMAN. These two good-looking gentlemen right here.

Mr. WEISMAN. I take it that if we need to have access to these books we may get in touch with Mr. McManus, and send our representative to take such matters from them?

The CHAIRMAN. That is right. Let me say, if we finish with the books prior to October 15, we will return them to you just that much sooner. Maybe we can finish them by October 10 or sooner. If we do, we will return them.

Mr. SIMON. Senator, may I ask one question for the record?

Mr. WEISMAN. Before you ask the question, I wish it to be perfectly plain in this record that we are turning these books over under the compulsion of the direction of this august committee.

The CHAIRMAN. No question about that. The record will so state.

Mr. SIMON. Mr. Traub, are the books listed in the inventory that Mr. Weisman referred to a moment ago all of your books and records in existence?

Mr. TRAUB. Excepting for the current checkbook.

The CHAIRMAN. Excepting for the current checkbook, 1954, you mean?

Mr. TRAUB. Yes, sir.

Mr. WEISMAN. Thank you, gentlemen. Thank you for your courtesy and indulgence.

The CHAIRMAN. The last witness today will be Mr. William P. Hahn. Mr. Hahn, will you please come forward? Will you please be sworn?

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

**TESTIMONY OF WILLIAM P. HAHN, ABK APARTMENTS, BAYSIDE, N. Y., ETC., ACCOMPANIED BY SIDNEY S. LEVIN, COUNSEL**

Mr. HAHN. I do.

The CHAIRMAN. Thank you, sir.

Please be seated and give your full name and address to the reporter. The gentleman with you is your attorney?

Mr. HAHN. Yes, my attorney. My name is William P. Hahn, 69-101 108th Street, Forest Hills, N. Y. My attorney is Sidney S. Levin. His office is at 163-18 Jamaica Avenue, Jamaica, Long Island.

Mr. SIMON. Mr. Hahn, you are one of the sponsors of ABK Apartments, are you?

Mr. HAHN. Yes, sir.

Mr. SIMON. What is the name of the corporation that owns ABK Apartments?

Mr. HAHN. Well, it is really initials of the stockholders, ABK, SHR, and WPH are the main stockholders of this corporation.

Mr. SIMON. Are they three separate corporations?

Mr. HAHN. Yes, sir; three separate corporations.

Mr. SIMON. What is the name of the corporation that owns ABK Apartments?

Mr. HAHN. It is ABK Apartments, Inc.

Mr. SIMON. ABK Apartments, Inc.?

Mr. HAHN. That is right.

Mr. SIMON. And the second one is SHR Apartments, Inc.?

Mr. HAHN. Yes; and WPH Apartments, Inc., which is the initials.

Mr. SIMON. What is the capital stock of each of those corporations?

Mr. HAHN. \$5,000 each.

Mr. SIMON. \$5,000 each, and then in addition, \$100 to the FHA Commissioner for preferred stock?

Mr. HAHN. Yes.

Mr. SIMON. What is the amount of the mortgage in ABK Apartments, Inc.?

Mr. HAHN. \$872,000.

Mr. SIMON. Where is that project located?

Mr. HAHN. It is located in Bayside; well, they are all one area. Bayside is around 210th Street, between Corporal Kennedy and 212 Bay Street, Long Island.

Mr. SIMON. That is in Long Island?

Mr. HAHN. Yes, sir.

Mr. SIMON. All three projects are in the same community?

Mr. HAHN. Yes, sir.

Mr. SIMON. What is the mortgage in SHR Apartments?

Mr. HAHN. \$1,931,700.

- Mr. SIMON. And the mortgage in WPH Apartments, Inc.?
- Mr. HAHN. \$1,182,600.
- Mr. SIMON. The total mortgages on the three projects are \$3,986,300?
- Mr. HAHN. That is right, sir.
- Mr. SIMON. What was the premium you received on ABK?
- Mr. HAHN. Three percent net. There was a 4 percent premium, 1 percent went to the mortgage broker.
- Mr. SIMON. Was the amount of dollars, \$25,160?
- Mr. HAHN. I have the premium exactly; approximately, ABK, \$26,160.
- Mr. SIMON. \$26,000; and in SHR?
- Mr. HAHN. \$57,850.
- Mr. SIMON. And in WPH?
- Mr. HAHN. \$35,478.
- Mr. SIMON. That would be a total of \$119,589?
- Mr. HAHN. That is right.
- Mr. SIMON. What was the cost of the land in ABK?
- Mr. HAHN. My cost of the land?
- Mr. SIMON. Cost of the land.
- Mr. HAHN. My cost was \$74,796.88.
- Mr. SIMON. And the cost in SHR?
- Mr. HAHN. \$165,000.
- Mr. SIMON. Cost in WPH?
- Mr. HAHN. \$51,800.
- Mr. SIMON. Total cost of \$291,596?
- Mr. HAHN. That is right, sir.
- Mr. SIMON. What was the cost of construction and financing and everything other than the land in ABK Apartments?
- Mr. HAHN. Now we have the two ways I can give you. One way is \$2,835,660.
- Mr. SIMON. That is for the three projects?
- Mr. HAHN. That is because we applied the premium to the mortgage—to the construction.
- Mr. SIMON. What I would like to get is the amount of dollars that you paid out to anybody in connection with the construction.
- Mr. HAHN. We paid the \$120,000 we got so we really paid out \$3,500,000—\$3,556,060 we paid out.
- Mr. SIMON. That was actually paid out in checks?
- Mr. HAHN. That is right.
- Mr. SIMON. The \$2,935,000 figure you gave us is your actual cost after deducting the premium on the mortgage?
- Mr. HAHN. That is right.
- Mr. SIMON. And the difference between your actual costs and the mortgage proceeds was \$877,000; is that right?
- Mr. HAHN. No.
- Mr. SIMON. It would be more than that?
- Mr. HAHN. No; it is less than that.
- Mr. SIMON. It would be \$950,000, wouldn't it?
- Mr. HAHN. No.
- Mr. SIMON. The mortgage was \$3,986,000; is that right?
- Mr. HAHN. That is right.
- Mr. SIMON. And the costs, after reducing the costs by the mortgage premium, at \$2,935,000; is that right? That doesn't include the land.
- Mr. HAHN. That is right.

Mr. SIMON. That would be \$665,000 was the surplus of mortgage proceeds over costs; is that right?

Mr. HAHN. It is approximately that.

Mr. SIMON. And upon completion of the building did you distribute to yourselves \$874,500?

Mr. HAHN. That is correct.

Mr. SIMON. And that came out of the excess of mortgage proceeds over the cost?

Mr. HAHN. That is right.

Mr. SIMON. When were these buildings completed?

Mr. HAHN. Completed in 1950.

Mr. SIMON. And the total mortgage was roughly \$4 million and the amount that you had left over out of the mortgage was roughly 15 percent of the total amount?

Mr. HAHN. That is right; approximately that.

Mr. SIMON. Or \$665,000?

Mr. HAHN. That is right.

Mr. SIMON. Thank you very much.

The CHAIRMAN. Thank you very much.

We will now stand in recess until 10 o'clock this Thursday morning. (Whereupon, at 4:20 p. m., the committee recessed to reconvene at 10 a. m., Thursday, September 30, 1954.)

## FHA INVESTIGATION

THURSDAY, SEPTEMBER 30, 1954

UNITED STATES SENATE,  
BANKING AND CURRENCY COMMITTEE,  
*New York, N. Y.*

The committee met, pursuant to recess at 10 a. m., Prescott Bush, presiding.

Present: Senators Bush, Payne, and Beall.

Also present: William Simon, general counsel; Richard W. Hogue and Clarence M. Dinkins, assistant counsel; and John A. Bard, accountant, FHA investigation.

Senator BUSH. The committee will please be in order.

The first witness today is Mr. Jack Carner. Mr. Carner, will you be sworn?

Do you solemnly swear that the testimony you are about to give before this committee will be the truth, the whole truth and nothing but the truth, so help you God?

### TESTIMONY OF JACK CARNER, KINGSWAY GARDENS, BROOKLYN, N. Y., ETC., ACCOMPANIED BY ABRAHAM RAIDER, COUNSEL

Mr. CARNER. So help me God.

Senator BUSH. Please be seated and give your correct name to the clerk.

Mr. CARNER. Jack Carner, 859 Forest Avenue, Rye, N. Y.

Senator BUSH. Mr. Simon.

Mr. SIMON. Mr. Carner, are you associated with the Kingsway Gardens project?

Mr. CARNER. Yes, sir.

Mr. SIMON. Where is it located?

Mr. CARNER. On the east side of Kings Highway between 26th Street and 29th Street.

Mr. SIMON. Where?

Mr. CARNER. Brooklyn.

Mr. SIMON. Who acquired the land on which the project was built?

Mr. CARNER. I did.

Mr. SIMON. That is, through a corporation of which you were the sole stockholder?

Mr. CARNER. That is right.

Mr. SIMON. And who built the building? That is, who got the section 608 commitment and built the building?

Mr. CARNER. I did.

Mr. SIMON. Was that through a corporation, too?

Mr. CARNER. Yes, sir.

- Mr. SIMON. What was the name of the corporation?
- Mr. CARNER. Car-Jack Realty Corp.
- Mr. SIMON. Car-Jack Realty No. 2?
- Mr. CARNER. That is right.
- Mr. SIMON. Who were the stockholders of that?
- Mr. CARNER. I was the sole owner.
- Mr. SIMON. What was the capital stock of Car-Jack Realty No. 2?
- Mr. CARNER. The value of the land?
- Mr. SIMON. No; the capital stock.
- Mr. CARNER. About \$122,000.
- Mr. SIMON. How many shares were issued?
- Mr. CARNER. I think it was 200.
- Mr. SIMON. 200 shares. And that was issued for the land?
- Mr. CARNER. That is right.
- Mr. SIMON. And the land had cost you \$122,000?
- Mr. CARNER. That is right.
- Mr. SIMON. Was there any cash put in in addition to the land?
- Mr. CARNER. What do you mean?
- Mr. SIMON. For the stock. The stock was issued just for the land?
- Mr. CARNER. That is right.
- Mr. SIMON. What was the amount of the FHA mortgage?
- Mr. CARNER. \$2,358,000.
- Mr. SIMON. When you sold the mortgage, did you get a premium on it?
- Mr. CARNER. I did.
- Mr. SIMON. What was the amount of the premium?
- Mr. CARNER. \$82,530.
- Mr. SIMON. Who actually built the building? What construction company was it?
- Mr. CARNER. This Car-Jack Realty.
- Mr. SIMON. The sponsor was its own builder?
- Mr. CARNER. That is right.
- Mr. SIMON. What was the cost of constructing the building?
- Mr. CARNER. Cost?
- Mr. SIMON. What was the cost?
- Mr. RAIDER. Mr. Simon, may I interrupt a moment to correct a statement Mr. Carner made? Actually the Car-Jack Realty Corp. constructed the building for Kingsway Gardens, Inc., which was the mortgagee under section 608. As a matter of fact, it was built at cost so it didn't make too much difference whether it was Car-Jack or Kingsway Gardens, Inc.
- Mr. SIMON. Kingsway Gardens, Inc., was owned by whom?
- Mr. CARNER. By myself.
- Mr. SIMON. You were the sole stockholder in all three corporations?
- Mr. CARNER. That is right.
- Mr. SIMON. Was the capital stock of Kingsway, Inc., issued for this land?
- Mr. CARNER. That is right.
- Mr. SIMON. Car-Jack Realty No. 2 built the building?
- Mr. CARNER. That is right.
- Mr. SIMON. You owned all the stock in both of them?
- Mr. CARNER. That is right.
- Mr. SIMON. What was the cost of construction?
- Mr. CARNER. \$1,986,383.79.

Mr. SIMON. That includes the cost of the land, cost of construction of building, and the interest and taxes during construction; is that right?

Mr. CARNER. Yes, sir.

Mr. SIMON. That is the total cost paid to everybody?

Mr. CARNER. That is right.

Mr. SIMON. Therefore, the total costs were \$454,146.21 less than the mortgage proceeds, is that right?

Mr. CARNER. I believe so.

Mr. SIMON. Did you also have an interest in Nostrand Gardens?

Mr. CARNER. Yes, sir.

Mr. SIMON. That was a cooperative housing project?

Mr. CARNER. Section 213, yes.

Mr. SIMON. Cooperative housing project?

Mr. CARNER. That is right.

Mr. SIMON. Where was that located?

Mr. CARNER. That is on Avenue X.

Mr. RAIDER. Avenue X and Brown and Haring, Brooklyn, N. Y.

Mr. SIMON. How large a project is that?

Mr. CARNER. I think it was 348 units.

Mr. SIMON. And 66 garages, is that right?

Mr. CARNER. That is right.

Mr. SIMON. Who were the stockholders?

Let me ask you: Who built the building? What was the construction company?

Mr. RAIDER. Do you mind if I answer? Matroland Building Co., Inc.

Mr. SIMON. Who were the stockholders of the Matroland Building Co., Mr. Carner?

Mr. CARNER. They were three Giffunis and three Carners.

Mr. SIMON. You and two members of your family?

Mr. CARNER. Two brothers and Mr. Giffuni and two sons.

Mr. SIMON. And two of his sons?

Mr. CARNER. That is right.

Mr. SIMON. Was there a Nostrand Gardens Corp. organized as a nonprofit corporation to sell these cooperative housing projects?

Mr. CARNER. I don't know how to answer that. I don't understand that.

Mr. SIMON. You say Matroland built the building.

Mr. CARNER. That is right.

Mr. SIMON. Didn't it have a contract with some nonprofit corporation under which it built the building and didn't the nonprofit corporation then sell the apartments to the homeowners?

Mr. RAIDER. Do you want me to answer that question, Mr. Simon?

Mr. SIMON. If he doesn't know.

Mr. CARNER. I don't understand that.

Mr. SIMON. Did you have a building contract to build this building?

Mr. CARNER. For the Nostrand.

Mr. SIMON. Who was the contract between?

Mr. CARNER. The Matroland for the Nostrand.

Mr. SIMON. And Nostrand?

Mr. CARNER. That is right.

Mr. SIMON. Was there a corporation by the name of Nostrand?

Mr. CARNER. Nostrand were the cooperatives, the owners.

- Mr. SIMON. That was a cooperative non-profit corporation?
- Mr. CARNER. That is right.
- Mr. SIMON. Now, who applied for the FHA commitment?
- Mr. CARNER. Well, we purchased this parcel.
- Mr. SIMON. Who applied for the commitment, though?
- Mr. CARNER. Well, I guess the original sponsors.
- Mr. SIMON. Who were they?
- Mr. CARNER. There was a party by the name of Roach, and also a party by the name of Sam Match. I don't know Roach's first name.
- Mr. SIMON. What did you purchase from Match and Roach?
- Mr. CARNER. We purchased the land and the stock.
- Mr. SIMON. The land you paid \$115,000 for, is that right?
- Mr. CARNER. That is right.
- Mr. SIMON. FHA then valued the land at \$142,000?
- Mr. CARNER. That is right.
- Mr. SIMON. You were able to get a mortgage on it for \$126,000?
- Mr. CARNER. That is correct.
- Mr. SIMON. And you then leased the property for 99 years to the cooperative at a rental of \$3,100? I am sorry, at a rental of about \$8,000 a year?
- Mr. CARNER. That is right.
- Mr. SIMON. That is a 99-year lease?
- Mr. CARNER. That is right.
- Mr. SIMON. The cooperators do not own the land on which the building is built?
- Mr. CARNER. That is right.
- Mr. SIMON. You also purchased for \$105,000 the stock of the construction company?
- Mr. CARNER. That is right.
- Mr. SIMON. At the time you paid \$105,000 for that stock, what were its assets?
- Mr. CARNER. Well, that was the actual moneys that had been advanced by them. In other words, on their books.
- Mr. SIMON. Did that company have any assets other than the FHA commitment?
- Mr. CARNER. That is all I purchased. Nothing else.
- Mr. SIMON. So that you paid them \$105,000 for the FHA commitment?
- Mr. CARNER. No, for moneys advanced, such as architect's fees—
- Mr. SIMON. What did you get for your \$105,000?
- Mr. CARNER. Well, I got all the actual work and moneys expended for such as the sale of the apartments, the moneys advanced to the architect, plans, the fees to the brokers. That was all done by the original people.
- Mr. SIMON. And have they spent \$105,000?
- Mr. CARNER. Yes, sir.
- Mr. SIMON. That is what you paid them?
- Mr. CARNER. Exactly what they are supposed to have spent.
- Mr. SIMON. Did they make a profit on the sale of the land to you?
- Mr. CARNER. I wouldn't know that.
- Mr. SIMON. Then I gather you built a third project called Patricia Gardens?
- Mr. CARNER. That is right.

Mr. SIMON. In which the mortgage turned out to be equal to the cost; in fact, a little less than the cost?

Mr. CARNER. About \$60,000.

Mr. SIMON. Isn't it \$48,000?

Mr. CARNER. That is after the premium on the mortgage.

Mr. SIMON. On that one the costs were \$46,000 more?

Mr. CARNER. About \$47,000 more than I had received.

Mr. SIMON. Thank you very much.

Senator BUSH. Any questions, Senator Payne?

Senator PAYNE. No, sir.

Senator BUSH. Thank you very much for coming. We appreciate your cooperation.

Is Mr. Brunetti in the room?

Mr. BRUNETTI. Yes, sir.

Senator BUSH. Will you come forward, please?

Mr. Brunetti, will you raise your right hand, please? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF JOSEPH J. BRUNETTI, MAYBROOK GARDENS, MAYWOOD, N. J., ETC., ACCOMPANIED BY WALTER D. VAN RIPER, COUNSEL, AND EDWIN R. ABFEL, ACCOUNTANT**

Mr. BRUNETTI. I do.

Senator BUSH. Please give your correct name and address to the clerk.

Mr. BRUNETTI. Joseph J. Brunetti, 277 Standish Avenue, Hackensack, N. J.

Senator BUSH. Mr. Simon.

Mr. SIMON. Mr. Brunetti, have you built a number of projects under section 608 of the Housing Act?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Do you know how many?

Mr. BRUNETTI. About a half a dozen.

Mr. SIMON. Was the total mortgages \$27,800,500?

Mr. BRUNETTI. That is about right.

Mr. SIMON. A construction company which you own built those buildings?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Excluding your office overhead, was the excess mortgage funds over costs on those projects about \$1,625,000?

Mr. RIPER. Just a minute. Maybe we can help you on that. We have it figured individually. What did you say, Mr. Simon, one million—

Mr. SIMON. \$625,000.

Mr. RIPER. Our accountant says he figures it about \$1,400,000.

Mr. SIMON. Let's do them one by one and see where we come out.

Mr. ABFEL. Excuse me, Mr. Simon. Did you include the sales in there, too? Do you remember?

Mr. SIMON. I don't think so.

Mr. ABFEL. I get about \$1,400,000.

Mr. SIMON. Will you give us the names of these projects, please, Mr. Brunetti?

Mr. BRUNETTI. Maybrook Gardens, Inc.

Mr. SIMON. Where is that located?

Mr. BRUNETTI. On Essex Street in Maywood, N. J.

Mr. SIMON. What was the capital stock of Maybrook Gardens, Inc.?

Mr. BRUNETTI. \$10,000.

Mr. SIMON. Weren't there six different corporations?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. And the total capital stock of the six corporations was \$10,000?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. What was the second one?

Mr. BRUNETTI. Rutherford Apartments, Inc., Union Avenue, in Rutherford, N. J.

Mr. SIMON. What was the capital stock of that corporation?

Mr. BRUNETTI. \$5,000.

Mr. SIMON. How many corporations were there?

Mr. BRUNETTI. One.

Mr. SIMON. And the stock was \$5,000?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. What was the third one?

Mr. BRUNETTI. Van Ness Gardens, Inc., in Irvington, N. J.

Mr. SIMON. What was the capital stock of that corporation?

Mr. BRUNETTI. \$1,000.

Mr. SIMON. What is the next one?

Mr. BRUNETTI. Brookchester, Inc., River Road, New Mulford, N. J. There was six sections. I mean there are 10 sections in this particular project.

Mr. SIMON. And the capital stock of each of the 10 was \$1,000 or a total of \$10,000?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. What is the next one?

Mr. BRUNETTI. Richard Village, Inc., 6 sections—8 sections, in Clifton, N. J.

Mr. SIMON. Was the capital stock of each of those corporations \$1,000 or a total of \$8,000?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. What is the next one?

Mr. BRUNETTI. Wright Village, Inc., Terhune Avenue, Lodi, N. J.

Mr. SIMON. What was the capital stock?

Mr. BRUNETTI. \$1,000.

Mr. SIMON. Were you advised by FHA people how to fill out the applications for FHA commitments?

Mr. BRUNETTI. I was advised by my mortgage broker to fill out applications.

Mr. SIMON. Is that the Alexander Summer Mortgage Co.?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Where are they located?

Mr. BRUNETTI. In Teaneck, N. J.

Mr. SIMON. Did they tell you what figures to put in the applications?

Mr. BRUNETTI. They prepared the applications.

Mr. SIMON. Did you sign them?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Did you read them before signing them?

Mr. BRUNETTI. In some cases I did.

Mr. SIMON. In some cases you didn't?

Mr. BRUNETTI. In other words, I looked at certain things that I understood.

Mr. SIMON. You mean by that you didn't look at certain things that you didn't understand?

Mr. BRUNETTI. The applications, sir, were such that unless you were an expert and familiar with those type of applications, they were hard to fill out.

Mr. SIMON. One of the items in the application, Mr. Brunetti, is an estimate of the cost of construction of the building. Were those estimates your estimates, or the estimates of the Alexander Summer Mortgage Co.?

Mr. BRUNETTI. They were prepared by Alexander Summer Co.

Mr. SIMON. Are you saying they are their estimates and not your estimates?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Did you know that the law limited a section 608 mortgage to \$8,100 a unit?

Mr. BRUNETTI. I heard of that.

Mr. SIMON. Do you know whether the Alexander Summer Mortgage Co. filled out these applications on a basis of asking for a mortgage of \$8,100 a unit without regard to what the actual estimates of cost were to be?

Mr. BRUNETTI. In some cases they did.

Mr. SIMON. They actually wouldn't know what your estimates of costs were going to be, would they?

Mr. BRUNETTI. No, sir.

Mr. SIMON. Did you ever sign any of these applications in blank and let them fill them in?

Mr. BRUNETTI. I don't recall.

Senator BUSH. Could it have happened that you did that, do you think?

Mr. BRUNETTI. Senator, I think that if you say that I signed them in blank, it could have been simultaneously, where they were partially filled, and I took it for granted that they were acquainted with the regulations and I signed them and didn't notice them if they were blank or filled out sometimes.

Mr. SIMON. As I understand it, Mr. Brunetti, you customarily at Christmas gave Christmas gifts to all the FHA personnel?

Mr. BRUNETTI. Yes, sir. I gave gifts to, or my organization gave gifts to, everyone connected in the building industry, including FHA.

Mr. SIMON. Including all the employees in the FHA office?

Mr. BRUNETTI. I wouldn't say all.

Mr. SIMON. I assume you didn't give them to the porters but all the people that had any jobs that permitted them to make policy?

Mr. BRUNETTI. Well, sir, I wouldn't know exactly if it was all. I say that we did give gifts.

Mr. SIMON. To a substantial number of FHA employees. Is that a fair statement?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Do you own a yacht?

Mr. BRUNETTI. I did own a yacht.

Mr. SIMON. On at least three occasions did your architect borrow the yacht to entertain FHA employees?

Mr. BRUNETTI. He said that he was going to use the yacht one afternoon, on a Sunday afternoon, to take some friends of his out for a ride, and later on, I discovered that there were going to be FHA men on this boat. However, since then, I found out recently that they did not go out on the boat.

Mr. SIMON. Weren't there at least three occasions when the architect borrowed the yacht for that purpose?

Mr. BRUNETTI. I don't think he borrowed the boat three times.

Mr. SIMON. Didn't you so testify in executive session?

Mr. BRUNETTI. I said that I think that the FHA men were on the boat three times.

Mr. SIMON. I see, and 1 of those 3 times you yourself took them out?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Now, going to the Maybrook Gardens case, who built the building?

Mr. BRUNETTI. Maybrook Gardens, Inc., 1, 2, 3, 4, 5, 6 sections.

Mr. SIMON. The sponsoring corporation was also the construction company?

Mr. BRUNETTI. In this particular case; yes.

Mr. SIMON. Do I understand that the sponsoring corporations acquired the land from a company owned by you at its actual cost?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. What was the cost of the land?

Mr. BRUNETTI. \$75,199.78.

Mr. SIMON. What was the actual construction cost?

Mr. BRUNETTI. \$3,621,083.95.

Mr. SIMON. Does that include any salaries to you or any profits to any of your companies?

Mr. BRUNETTI. No, sir.

Mr. SIMON. That is the actual amount it cost?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Does that include the cost of the land?

Mr. BRUNETTI. No, sir.

Mr. SIMON. The total cost then including the cost of the land is \$3,696,283?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. The excess of mortgage over cost was \$97,783.73, plus a mortgage premium of \$108,000?

Mr. BRUNETTI. It was \$99,783.73.

Mr. SIMON. \$99,783 mortgage premium, is that right?

Mr. BRUNETTI. Deficiency, \$99,783.73.

Mr. SIMON. Didn't you get a mortgage premium of \$109,000?

Mr. BRUNETTI. Yes, sir, \$109,478.87.

Mr. SIMON. The mortgage was \$3,598,500?

Mr. BRUNETTI. \$3,596,500.

Mr. SIMON. So that the total mortgage proceeds exceeded the total cost by \$10,000, is that right?

Mr. BRUNETTI. \$9,695.14.

Mr. SIMON. Going to Rutherford Apartments, it is just one company there, is that right?

Mr. BRUNETTI. Yes.

Mr. SIMON. What was the mortgage there?

Mr. BRUNETTI. \$1,100,000.

Mr. SIMON. What was the land cost?

Mr. BRUNETTI. \$46,970.63.

Mr. SIMON. What was the construction cost?

Mr. BRUNETTI. \$910,900.

Mr. SIMON. Who was the contractor?

Mr. BRUNETTI. Rutherford Park Apartments, Inc., built the job.

Mr. SIMON. The sponsor was the contractor?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. The \$910,900 was its actual cost?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Was there a mortgage premium there?

Mr. BRUNETTI. No, sir.

Mr. SIMON. Then the mortgage proceeds exceeded the total costs by \$40,000?

Mr. BRUNETTI. \$43,129.37.

Mr. SIMON. Going to Van Ness Gardens, who owns the stock of the sponsor corporation?

Mr. BRUNETTI. Mayview Gardens, Inc.

Mr. SIMON. Who owns Mayview Gardens?

Mr. BRUNETTI. Hillcrest Park Homes, Inc.

Mr. SIMON. And who owns Hillcrest Gardens Homes, Inc.?

Mr. BRUNETTI. I did.

Mr. SIMON. What was the amount of the mortgage?

Mr. BRUNETTI. \$747,500.

Mr. SIMON. What was the land cost?

Mr. BRUNETTI. \$34,206.25.

Mr. SIMON. What was the actual cost of constructing the building, including the interim financing charges?

Mr. BRUNETTI. Mayview, Inc., built the project.

Mr. SIMON. What was the actual cost of construction?

Mr. BRUNETTI. \$837,661.92.

Mr. SIMON. Was there a premium on the mortgage?

Mr. ROPER. He might have made an error.

Mr. ABFEL. You have two corporations, Van Ness Gardens, Inc. As far as their costs, they were \$726,702.85.

Mr. SIMON. I understand both corporations lost money. We are trying to find out the actual cost.

Mr. ABFEL. Overall loss was \$133,712.55, including the premium that was received as far as two corporations were concerned.

Mr. SIMON. After adding the premium back?

Mr. ABFEL. Yes, sir.

Mr. SIMON. That was the actual loss?

Mr. ABFEL. Yes, sir.

Mr. SIMON. Without any intracompany profits?

Mr. ABFEL. No intracompany profits at all.

Mr. SIMON. The next one is Brookchester.

Mr. BRUNETTI. Brookchester, Inc., 1 to 10, inclusive.

Mr. SIMON. Who owned the stock of those 10 companies?

Mr. BRUNETTI. Joseph J. Brunetti Construction Co., Inc.

Mr. SIMON. And who owned the stock of Joseph J. Brunetti Construction Co.?

Mr. BRUNETTI. I did.

Mr. SIMON. Wasn't it owned by a company called Joseph J. Brunetti, Inc.?

Mr. BRUNETTI. Joseph J. Brunetti Construction Co., Inc.

Mr. SIMON. There are not two separate companies then?

Mr. BRUNETTI. No, sir.

Mr. SIMON. What was the amount of the mortgage?

Mr. BRUNETTI. \$10,765,500.

Mr. SIMON. What was the mortgage premium?

Mr. BRUNETTI. \$248,207.37.

Mr. SIMON. Total proceeds of the mortgage then were \$11,011,707.37?

Mr. ABFEL. What was that figure again, please?

Mr. SIMON. \$11,011,707.37.

Mr. ABFEL. That is approximately correct, yes.

Mr. SIMON. Who purchased the land?

Mr. BRUNETTI. I did.

Mr. SIMON. What was the purchase price?

Mr. ROPER. Excuse me a minute.

Mr. ABFEL. Who purchased the land from whom?

Mr. SIMON. Who purchased the land from the last stranger?

Mr. BRUNETTI. Bru-Ann Realty.

Mr. SIMON. You owned the stock in that?

Mr. BRUNETTI. Hillcrest Park, Inc.

Mr. SIMON. You owned the stock of Hillcrest?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. How much did Bru-Ann pay for the land?

Mr. BRUNETTI. \$155,783.34.

Mr. ABFEL. That is what Bru-Ann paid for the land plus real-estate taxes and interest during the time they held it.

In other words, there was no profit made on the transaction.

Mr. SIMON. That was total out-of-pocket cost?

Mr. ABFEL. That is right, sir. No intercompany profit.

Mr. SIMON. Who built the building?

Mr. BRUNETTI. Joseph J. Brunetti Co., Inc.

Mr. SIMON. Which you owned?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. What was the actual cost of construction?

Mr. BRUNETTI. \$9,320,361.83.

Mr. ABFEL. We have the same situation here again. The actual cost of construction is reflected in two places, and as far as the individual owning companies are concerned, when you include the land cost, the total costs to the 10 owning companies, including the land, come to \$10,822,000.

Mr. SIMON. The question is: What did it cost to build these buildings?

Mr. ABFEL. We haven't got it in one figure. There are two separate sets of corporations.

Mr. SIMON. I understand, but disregarding the transactions between the right and left hand—

Mr. ABFEL. These are not transactions between the right and left hand. When you have an owning company, the owning company pays an FHA examination fee which is not included in the cost of construction.

Mr. SIMON. We are trying to find out total cost, not contract price between companies.

Mr. ABFEL. I think we can get it this way quicker. Total cost of the Brookshire sections were \$10,822,204.48, and that would leave in Brookshire, if you included the premiums, in excess of approximately \$190,000. The construction company itself had costs of \$9,320,361.83, and the construction company itself had a profit of \$882,000, and the overall profit, including all the premiums on this particular job, would be \$1,073,685.06. That is on a mortgage of \$10,765,500.

Mr. SIMON. I can't agree you have a profit on something you own, but is what you are saying that the mortgage proceeds—

Mr. ABFEL. And the premiums—

Mr. SIMON. The mortgage proceeds which would include the premiums exceed all actual costs paid by any company by \$1,073,000?

Mr. ABFEL. That is correct, sir.

Mr. SIMON. The next one is Richfield Village.

Mr. BRUNETTI. Yes; Richfield Village, 8 sections, 1 to 8, inclusive.

Mr. SIMON. And who owned them?

Mr. BRUNETTI. Joseph J. Brunetti Construction Co.

Mr. SIMON. And you owned that company?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. What was the total amount of the mortgage?

Mr. BRUNETTI. \$7,489,000.

Mr. SIMON. The premium?

Mr. BRUNETTI. \$138,369.78.

Mr. SIMON. Making the total mortgage proceeds \$7,627,269.78?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Who purchased the land from the last stranger?

Mr. BRUNETTI. I think Bru-Ann Realty Co., Inc.

Mr. SIMON. How much did it pay?

Mr. BRUNETTI. \$191,070.04.

Mr. ABFEL. This is the same as the last situation, Mr. Simon, no intercompany profits.

Mr. SIMON. That is the total cost, including interest, up to the time you turned it over to the sponsoring corporation?

Mr. BRUNETTI. That is right.

Mr. SIMON. Who constructed the building?

Mr. BRUNETTI. Joseph Brunetti Construction Co., Inc.

Mr. SIMON. What was the cost of construction?

Mr. BRUNETTI. The whole profit, including—

Mr. SIMON. What was its cost? Was it \$7,147,218?

Mr. ABFEL. That is not the cost, Mr. Simon. That is the construction contract between the two companies. We don't have the one figure here. The overall profit that was made on the entire job, if you will look at it, is one picture. Including the mortgage premiums it was \$135,717.74.

Mr. SIMON. Weren't the mortgage costs, the actual costs—

Mr. ABFEL. Actual cost of construction to construction company. There were other costs on the owner's books which are not reflected in that particular figure.

Mr. SIMON. Was the actual cost \$6,945,000?

Mr. ABFEL. Those are costs to construction company. Those were not the only costs. There were other costs approximating \$360,000.

Mr. SIMON. What were they?

Mr. ABFEL. Architect's fee—

Mr. SIMON. How much was that?

Mr. ABFEL. \$83,340.64.

Mr. SIMON. Who got that?

Mr. ABFEL. Leonard Fineman, engineer's fee of \$45,738.

Mr. SIMON. All right. Who got that?

Mr. BRUNETTI. Canjor & Bailey, engineers.

Mr. ABFEL. FHA inspection fee of \$37,445, and FHA commitment examination fee of \$22,467. Costs written off during construction, interest, real-estate taxes, insurance and FHA insurance during construction, \$120,094.23. Mortgage discount of \$8,497.50, on two sections we had a mortgage discount. On the other 6 sections there were a premium and a legal fee of \$37,445.

Mr. SIMON. After taking all those costs, the mortgage proceeds exceeded the cost by \$130,000?

Mr. ABFEL. \$135,717.74. That is correct.

Mr. SIMON. The last project is Wright Village, Lodi, N. J.

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Who owns the stock in the sponsoring corporation?

Mr. BRUNETTI. Joseph J. Brunetti Construction Co., Inc.

Mr. SIMON. And you own the stock in that?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. What was the total amount of the mortgage?

Mr. BRUNETTI. \$4,199,000.

Mr. SIMON. You had a discount there?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. \$41,000—

Mr. BRUNETTI. 990.

Mr. SIMON. What was the total mortgage proceeds?

Mr. ABFEL. \$4,199,000, less the discount.

Mr. SIMON. \$4,157,010?

Mr. ABFEL. That is the net.

Mr. SIMON. What was the land cost?

Mr. BRUNETTI. \$138,093.77.

Mr. SIMON. Who built the building?

Mr. BRUNETTI. Joseph J. Brunetti Construction Co., Inc.

Mr. SIMON. What was its cost?

Mr. BRUNETTI. \$3,696,249.86.

Mr. SIMON. Were there any other costs in connection with the project?

Mr. BRUNETTI. Architect's fee.

Mr. SIMON. What was that?

Mr. BRUNETTI. \$40,314.74.

Mr. SIMON. Any others?

Mr. BRUNETTI. Engineer, \$22,253. FHA fees, \$32,548, finance fees, \$5,000.

Mr. SIMON. Any other costs?

Mr. BRUNETTI. Costs written off during construction, interest, real estate, taxes, insurance, \$78,057.45.

Mr. SIMON. Any other costs?

Mr. BRUNETTI. No, sir.

Mr. ABFEL. There is one item we mentioned last time, Mr. Simon, also. There was \$190,000 of debt here between the sponsor corporation and the construction company that was forgiven by the construction company, due to lack of funds available to pay off the debt.

Mr. SIMON. That was merely—

Mr. ABFEL. An intercompany washout. The net overall profit was between all these companies——

Mr. SIMON. What was the difference between the mortgage proceeds after taking the discount that you had to receive, and the total actual costs that you paid out?

Mr. BRUNETTI. \$144,458.18.

Mr. SIMON. Do you have the total excess of mortgage proceeds over costs on the six projects?

Mr. ABFEL. On the six from Maybrook?

Mr. SIMON. All six of them.

Mr. ABFEL. \$9,700.

Mr. SIMON. All six of them.

Mr. ABFEL. I have about \$1,271,700.

Mr. SIMON. Which is the amount on these six projects by which all of his costs, including interest and mortgage discounts——

Mr. ABFEL. Were less than the mortgage proceeds.

Mr. SIMON. Right.

Mr. Brunetti, were you given rent increases in any of these projects by FHA after completion of the projects?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Which ones?

Mr. BRUNETTI. Brookchester, 10 sections.

Mr. SIMON. That is the one where you had the million dollar excess mortgage over cost—\$1,073,000; is that right?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. When was it completed?

Mr. ABFEL. 1953. Approximately August.

Mr. BRUNETTI. It was completed approximately around August 1953.

Mr. SIMON. And since that time you have had a rent increase; is that right?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Any others in which you have had rent increases?

Mr. BRUNETTI. Wright Village.

Mr. SIMON. When was that completed?

Mr. RIPER. I think we may be in error as to that.

Mr. BRUNETTI. That particular job there was a rent increase in process and I think after I sold the job, the increase was granted, but I think that they got a rent increase.

Mr. SIMON. After you sold it?

Mr. BRUNETTI. I think so.

Mr. SIMON. When did you sell it?

Mr. BRUNETTI. April 1954.

Mr. SIMON. Any others in which there have been rent increases?

Mr. BRUNETTI. At the moment I can't remember any other one.

Mr. SIMON. When did you start this Brookchester project?

Mr. BRUNETTI. I started in November of 1949.

Mr. SIMON. It took you 4 years to finish it?

Mr. BRUNETTI. Yes, sir; there were 10 sections.

Mr. SIMON. Thank you.

Senator BUSH. Do you have any questions, Senator Payne?

Senator PAYNE. Yes, sir. Mr. Brunetti, when Brookchester was in the process of being constructed, how were the rents determined by FHA?

Mr. BRUNETTI. How were they determined?

Senator PAYNE. Yes.

Mr. BRUNETTI. I don't know.

Senator PAYNE. Were the rents based upon the total cost of construction or upon the total cost of the development?

Mr. BRUNETTI. I don't know their procedures.

Senator PAYNE. Did they give to you the schedule of rents that you were to charge?

Mr. BRUNETTI. They gave me the rent schedules at the time of issuing of commitments.

Senator PAYNE. Was that rent schedule changed from the time that they gave that commitment up to the time of the project being finally completed?

Mr. BRUNETTI. In some cases, while it was completed—did you say—

Senator PAYNE. From the time the commitment was given up to time of completion of the project.

Mr. BRUNETTI. No, sir.

Senator PAYNE. Now in other words the schedule remained the same?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Mr. Brunetti—

Mr. RIPER. If you will permit him to finish, please.

Mr. BRUNETTI. Senator, these projects are the lowest rental projects in the State of New Jersey.

Mr. SIMON. I suppose that would be a matter of opinion based upon what they were comparable to; is that right?

Mr. BRUNETTI. Any section 608.

Mr. SIMON. Isn't that based on your opinion as to comparable projects?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. To clarify your other answer, isn't it a fact that your applications, which you apparently didn't fill out and which were filled out by the Summer Mortgage Co., contained rent schedules?

Mr. BRUNETTI. Possibly.

Mr. SIMON. You know that the application does, don't you?

Mr. BRUNETTI. I understand it does, but I didn't check it at that time.

Mr. SIMON. The first rent schedules prepared for this project were the ones contained in your application even though you might not have had anything to do with filling it out?

Mr. BRUNETTI. I presume so.

Mr. SIMON. You knew that these mortgages under section 608 could not exceed 90 percent of the estimated cost of the property; is that right?

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Therefore, for you to get a \$10 million mortgage—\$10,700,000 mortgage—the estimate by FHA of the cost of the property had to be at least \$11,800,000.

Mr. BRUNETTI. Yes, sir.

Mr. SIMON. Therefore, the actual cost of the property was a little better than \$2,100,000 below FHA's estimate; is that right?

Mr. BRUNETTI. I presume so.

Mr. SIMON. In FHA's estimate—in FIA's rent schedule which they gave you—they included interest and amortization on the mortgage as an expense in computing the rent required to carry the project; isn't that right?

Mr. BRUNETTI. I presume so.

Mr. SIMON. And their computation included interest and rent on a mortgage—interest and amortization, excuse me—a mortgage on a property, the actual costs of which were \$2 million less than the estimated cost?

Mr. ROPER. Mr. Simon, will you permit us to hold that answer? I think Mr. Abfel has some information.

Mr. SIMON. Would you let him answer?

Mr. ROPER. I don't know if he can answer.

(Conference between Mr. Abfel and Mr. Brunetti.)

Mr. SIMON. Isn't that true?

Mr. BRUNETTI. Will you ask me the question again?

Mr. SIMON. Yes.

The rent schedule which FHA gave you in the project analysis was based upon a requirement for interest and amortization on a mortgage which was based upon an estimated cost that was \$2 million higher than the actual cost of the project?

Mr. BRUNETTI. I think so.

Mr. SIMON. Thank you.

Senator PAYNE. Then if that is correct, the rentals that were figured on that property were actually computed on a basis of somewhere between 15 and 20 percent higher than the actual equity in the property itself?

Mr. BRUNETTI. No, sir. My auditor here has more of the details and figures. I don't have them handy, and I think if he could explain, you will have the corrected answers.

Mr. ABFEL. Could I explain, Senator Payne, please?

As far as the actual computation of the rental on the FHA form the mortgage and interest and carrying charges are only one of the factors. It must also be understood that the FHA, from what I have seen, also computes carrying charges, maintenance, and everything else. In Brookchester itself since the project has been completed, the real-estate taxes in that particular development have been doubled and the maintenance charges for that project, for that particular property, such as landscaping, snow removal, and other items, were far in excess of any estimates that anybody ever made, and on that particular situation, that was the basis, I believe, for the rent increase, and in the original application no one could have any possible idea of the costs of maintaining that particular property.

Mr. SIMON. That has nothing to do with the question Senator Payne raised.

Mr. ABFEL. I agree that—

Mr. SIMON. You have several items that go into figuring rents. One of those items is the interest and amortization on the mortgage.

Mr. ABFEL. That is correct.

Mr. SIMON. The question that Senator Payne asked was directed to the fact if that factor—maybe your other factors were too low—but if that factor wasn't increased by an estimated cost of construc-

tion, which was 20 percent higher than the actual cost of construction, and therefore that factor—

Mr. ABFEL. That particular factor would have been less.

Mr. SIMON. Would have been 20 percent off.

Mr. ABFEL. It would have been less; yes, sir.

Senator BUSH. Thank you very much. We appreciate your cooperation.

Mr. ROPER. Mr. Chairman, I sat here all day Monday. I saw how the committee proceeded. I can't leave without expressing to the committee my appreciation just as a citizen of the fairness and the courtesy and the way in which this committee conducted itself. It is so refreshing in contrast to what we have been reading about a lot of congressional committees.

Senator BUSH. The committee appreciates your very kindly comment. Thank you.

Mr. Jacob Schneider. Mr. Schneider, will you raise your right hand, please?

Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF JACOB SCHNEIDER, LANSON GARDENS, BROOKLYN, N. Y., ETC., ACCOMPANIED BY DAVID ROSENBLOOM, ACCOUNTANT**

Mr. SCHNEIDER. I do.

Senator BUSH. Will you give your correct name and address to the clerk, please?

Mr. SCHNEIDER. Jacob Schneider, 128 Beach, 132d Street, Bell Harbor, Long Island.

Senator BUSH. Mr. Simon.

Mr. SIMON. You are Jacob Schneider, of 128 Beach, 132d Street, Bell Harbor, Long Island, N. Y.?

Mr. SCHNEIDER. Yes.

Mr. SIMON. Mr. Schneider, are you connected with the Lanson Gardens project?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. I believe you own 50 percent of that project?

Mr. SCHNEIDER. Yes.

Mr. SIMON. Where is it located?

Mr. SCHNEIDER. Linden Boulevard and Rogers Avenue, Brooklyn.

Mr. SIMON. Brooklyn, N. Y., 142 units in the project?

Mr. SCHNEIDER. Yes.

Mr. SIMON. Who first acquired the land in your group?

Mr. SCHNEIDER. I did.

Mr. SIMON. You personally, or was it acquired by the Lanson Realty Corp.?

Mr. SCHNEIDER. Lanson Realty.

Mr. SIMON. Lanson Realty is owned by the same people who own Lanson Gardens?

Mr. SCHNEIDER. Yes.

Mr. SIMON. How much did you pay for the land?

Mr. ROSENBLOOM. Original cost?

Mr. SIMON. Total cost, including your interest, carrying charges, and everything else.

Mr. SCHNEIDER. \$82,818.75.

Mr. SIMON. Did you turn that land into this section 608 corporation or merely lease it to them?

Mr. SCHNEIDER. Lease it.

Mr. SIMON. 99-year lease?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. What value did FHA put on the lands for the lease purposes?

Mr. SCHNEIDER. \$115,000.

Mr. SIMON. After the FHA valuation, were you able to get a mortgage on that land for \$103,500?

Mr. SCHNEIDER. Yes.

Mr. SIMON. So that you received a mortgage of \$20,000 more than the land cost you?

Mr. SCHNEIDER. Yes.

Mr. SIMON. Who built the building?

Mr. SCHNEIDER. Seelco Construction Co.

Mr. SIMON. Do the same people own the stock in that company that owned the stock in Lanson Realty Co. and also owned the stock in Lanson Gardens?

Mr. SCHNEIDER. Yes.

Mr. SIMON. What was the amount of the mortgage?

Mr. SCHNEIDER. \$1,160,000.

Mr. SIMON. Was there a premium?

Mr. SCHNEIDER. Yes.

Mr. SIMON. What was the amount of the premium?

Mr. SCHNEIDER. The net was \$34,800.

Mr. SIMON. What was the cost of construction to the Seelco Construction Corp.? What was the construction cost?

Mr. ROSENBLOOM. We had a construction contract—

Mr. SIMON. My question is total cost. What did it cost, not what the contract said.

Mr. ROSENBLOOM. One - million - thirty-five-thousand-and-five-hundred-some-odd dollars to the construction company.

Mr. SIMON. I am sorry—

Mr. ROSENBLOOM. We have total costs, costs that were paid by the sponsor corporation.

Mr. SIMON. If he knows, I would appreciate his answering.

Mr. SCHNEIDER. \$1,035,000, plus the other expenses, FHA mortgages, interest, taxes, insurance, FHA examination fee, FHA inspection fee, title recording, and legal and total cost was \$1,095,552.58.

Mr. SIMON. Aren't you including in that cost you have just given us, Mr. Schneider, \$32,500 that you paid yourself and Mr. Fox in salaries?

Mr. SCHNEIDER. Yes.

Mr. SIMON. So that the total costs, excluding what you paid yourselves, are roughly \$1,065,000; is that right?

Mr. SCHNEIDER. Yes.

Mr. SIMON. And the total proceeds of the mortgage was \$1,194,000; is that right?

Mr. SCHNEIDER. Including the premium.

Mr. SIMON. That is right. So that the amount of money you got out of the mortgage was \$130,000 more than the amount of money it cost you to build the building?

Mr. SCHNEIDER. Including the salaries.

Mr. SIMON. Not including your salaries; is that right?

Mr. SCHNEIDER. Not including salaries; that is right.

Mr. SIMON. \$130,000 excess of mortgage proceeds over cost, not including what you paid yourselves; is that right?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. Did you build Roder Gardens?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. Where is that?

Mr. SCHNEIDER. 824 East Ninth Street in Brooklyn.

Mr. SIMON. How many units there?

Mr. SCHNEIDER. Eighty-four.

Mr. SIMON. What was the mortgage there?

Mr. SCHNEIDER. \$748,400.

Mr. SIMON. Was there a premium on the mortgage?

Mr. SCHNEIDER. Yes.

Mr. SIMON. What was the amount of the premium?

Mr. SCHNEIDER. About \$22,000. I think it is 3 percent.

Mr. SIMON. \$22,000?

Mr. SCHNEIDER. Somewhere along there.

Mr. SIMON. That would be \$770,000 total proceeds of the mortgage?

Mr. SCHNEIDER. Yes.

Mr. SIMON. Now, the mortgage did not include the land; did it?

Mr. SCHNEIDER. No.

Mr. SIMON. Who built the building?

Mr. SCHNEIDER. Brookshire Construction Corp.

Mr. SIMON. The same people owned the stock in that company as owned the stock in the company that owned the building?

Mr. SCHNEIDER. Brookshire owns the stock of Roder Gardens.

Mr. SIMON. So the building corporation was a wholly owned subsidiary of the construction company?

Mr. SCHNEIDER. Yes.

Mr. SIMON. What was the cost to the construction company of building the building?

Mr. SCHNEIDER. \$707,300.28.

Mr. SIMON. Does that include interest and carrying charges?

Mr. SCHNEIDER. No. That was paid by the Roder Gardens.

Mr. SIMON. What was the total of interest and carrying charges?

Mr. SCHNEIDER. \$10,388.

Mr. SIMON. Were the total costs to everybody for everything that was spent in connection with the building \$717,688?

Mr. SCHNEIDER. There was an additional working capital taken by the bank.

Mr. SIMON. Money you put in the bank isn't spent, is it? I am talking about what it cost you to build the building.

Mr. SCHNEIDER. \$707,300.29.

Mr. SIMON. The \$10,000 is financing?

Mr. SCHNEIDER. Plus the \$10,388.

Mr. SIMON. Is \$717,688 the total cost paid to anybody in connection with building the building?

Mr. SCHNEIDER. Yes.

Mr. SIMON. Does that include any salaries you paid yourself?

Mr. SCHNEIDER. Yes.

Mr. SIMON. \$37,000 of salaries?

Mr. SCHNEIDER. Yes.

Mr. SIMON. So that excluding your own salaries, the salaries you paid yourself, the mortgage proceeds were \$87,000 more than the total costs, is that right?

Mr. JACOBSON. Yes, except of the mortgage proceeds over \$11,000 was never seen by the corporations involved.

Mr. SIMON. What happened to that?

Mr. JACOBSON. That was taken over by the mortgagee immediately as working capital and was later applied to current escrow accruals which was just about equal to the working capital.

Mr. SIMON. Were those escrow accruals a cost of construction or cost of operating after the building was in operation.

Mr. JACOBSON. A cost of operation after the building was in construction, after it was in operation.

Mr. SIMON. I take it on your books you offset that as rental income, didn't you?

Mr. JACOBSON. Yes; but if we compare fund of moneys going out for construction and moneys coming in through the mortgage, it gets lost.

Mr. SIMON. It seems to me either have to add rental income after you built the building or not include the operating costs after the building was in operation.

Mr. JACOBSON. I am merely trying to make the point that if we attempt to compare funds coming in with funds going out, there were that amount of funds at that time during construction, that did go out to the mortgagee.

Mr. SIMON. But you are talking now about some costs of operating the building, which were offset on your books or charged on your books against rental income. Isn't that true?

Mr. SCHNEIDER. O. K.

Mr. SIMON. Is that true? I don't know. I am merely trying to find out from you.

Mr. JACOBSON. I assume that what you are attempting to show is that of the moneys that came in, comparing that with the amount of moneys that went out to strangers, that there was a certain fund left.

Mr. SIMON. We are trying to find out what was the difference between the amount of money you got from the mortgage and what it cost to build the building and we are not including any rental income after the building was operated nor are we including any operating expenses after the building was built.

Mr. SCHNEIDER. You are right.

Mr. SIMON. Is \$87,000 the amount of money by which the mortgage proceeds exceeded all of the costs of building the building, including interest and financing charges during construction?

Mr. SCHNEIDER. Yes.

Mr. SIMON. You also built two cooperative projects, did you not?

Mr. SCHNEIDER. One is completed and one is in construction.

Mr. SIMON. On the 2 section 608's, the mortgages were \$1,160,000 on 1 and \$748,000 on the other, approximately \$2 million mortgages, and the mortgage proceed exceeded the costs by \$217,000; is that right?

Mr. SCHNEIDER. Roughly.

Mr. SIMON. What was the capital stock of Roder Gardens?

Mr. SCHNEIDER. \$1,100.

Mr. SIMON. \$1,000 was stock you put up and \$100 was stock for the FHA Commissioner?

Mr. SCHNEIDER. Right.

Mr. SIMON. What was the capital stock in Lanson Gardens?

Mr. SCHNEIDER. The same.

Mr. SIMON. \$1,000 of stock for you people and \$100 for the FHA Commissioner; is that right?

Mr. SCHNEIDER. Yes.

Mr. SIMON. In the first of your cooperatives, Lincoln Cooperative Gardens, was the land put into the cooperative or did you lease that for 99 years?

Mr. SCHNEIDER. Leased.

Mr. SIMON. It is a lease arrangement. The cooperators never will own the land?

Mr. SCHNEIDER. Yes.

Mr. SIMON. Where is that cooperative located?

Mr. SCHNEIDER. East 7th Street, between Avenue Z and Joralemon Court.

Mr. SIMON. Who did Lincoln Cooperative Gardens contract with for the construction of the building?

Mr. SCHNEIDER. Jack Deer Construction Co.

Mr. SIMON. You owned 50 percent of the stock in that?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. Did Jack Deer Construction Co. then subcontract the job to somebody else?

Mr. SCHNEIDER. Yes.

Mr. SIMON. There were five corporations to whom it subcontracted the job; is that right?

Mr. SCHNEIDER. Yes.

Mr. SIMON. The Edmund Co., Sunny Co., the Burke Co., the Edyth Co., and the Evelyn Co.?

Mr. SCHNEIDER. Yes.

Mr. SIMON. Did each set of corporations make a profit on the construction?

Mr. SCHNEIDER. Yes.

Mr. SIMON. Why did the Jack Deer Co. subcontract the work to the five other companies instead of doing it itself?

Mr. SCHNEIDER. Because of a liability.

Mr. SIMON. Because of liability?

Mr. SCHNEIDER. Yes.

Mr. SIMON. What liability?

Mr. SCHNEIDER. Accident or anything else that may arise.

Mr. SIMON. Who were the stockholders of Jack Deer Construction Co.?

Mr. SCHNEIDER. The same stockholders as the other corporations.

Mr. SIMON. What was the capital stock of Jack Deer Construction Co.?

Mr. SCHNEIDER. \$4,000.

Mr. SIMON. \$4,000?

Mr. SCHNEIDER. Yes.

Mr. SIMON. If there was any liability it couldn't have possibly cost you more than the \$4,000, could it?

Mr. SCHNEIDER. And the loss of profits.

Mr. SIMON. Who were the stockholders of these five corporations with apparently children's first names?

Mr. SCHNEIDER. The same stockholders as Jack Deer.

Mr. SIMON. How would it make any difference as far as loss of profits are concerned if you had an accident whether the first company did the work or whether you subcontracted it to the second group of companies?

Mr. JACOBSON. Could I explain that?

Mr. SIMON. If he knows——

Mr. SCHNEIDER. My accountant took care of it.

Mr. SIMON. You did it. You must know why.

Mr. JACOBSON. He pays me fees. I am supposed to think of these things for him.

Mr. SIMON. Do you know why you took the contract in 1 company and then subcontracted it to 5 other companies and took a profit in each company?

Mr. SCHNEIDER. Well, I will give this to the accountant. They know.

Mr. SIMON. My only question is whether you knew why they did that?

Mr. SCHNEIDER. I didn't do it.

Mr. SIMON. You didn't?

Mr. SCHNEIDER. Jack Deer done that.

Mr. SIMON. What position did you occupy in Jack Deer Construction Co.?

Mr. SCHNEIDER. President.

Mr. SIMON. You were the president?

Mr. SCHNEIDER. Yes.

Mr. SIMON. Didn't you sign these papers for the subcontracts?

Mr. SCHNEIDER. Yes.

Mr. SIMON. I take it you are a director?

Mr. SCHNEIDER. Yes.

Mr. SIMON. You as a director must have voted for the contract; didn't you?

Mr. SCHNEIDER. Yes.

Mr. SIMON. When Jack Deer got the contract instead of it building the building, it subcontracted it to these five other companies. I am trying to find out from you why you did that. If you don't know, that is the answer, but I would like to know if you know why you did it.

Mr. SCHNEIDER. I have done that on the advice of my accountants.

Mr. SIMON. Did your accountants tell you why you should do it? Did they give you a reason?

Mr. SCHNEIDER. Yes.

Mr. SIMON. What was the reason they gave you?

Mr. SCHNEIDER. On account of liability.

Senator BUSH. Was it tax liability?

Mr. SCHNEIDER. I don't know.

Mr. SIMON. Thank you, sir.

Senator BUSH. Thank you very much, Mr. Schneider. That will do. We appreciate your cooperation.

Mr. Wolosoff, will you raise your right hand, please? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF ALVIN B. WOLOSOFF, ALLEY POND PARK,  
BROOKLYN, N. Y.

Mr. WOLOSOFF. I do.

Senator BUSH. Will you give your correct name and address to the clerk, please?

Mr. WOLOSOFF. Alvin B. Wolosoff, 138-50 78th Avenue, Flushing, N. Y.

Mr. WINN. Can we have such pictures taken first?

Senator BUSH. Will you get your pictures, please?

Mr. SIMON. Mr. Wolosoff, did you build three section 608 projects?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. One was Lakeview Apartments, another was Alley Pond Park, and the third was Campus Hill?

Mr. WOLOSOFF. Campus Hall Apartments.

Mr. SIMON. Prior to building the section 608's, had you built some section 207's?

Mr. WOLOSOFF. I built one section 207, sir.

Mr. SIMON. When was that?

Mr. WOLOSOFF. Approximately 1940.

Mr. SIMON. In 1940?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. Under section 207 of the Housing Act the mortgage cannot exceed 80 percent of the economic value of the property; is that right?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. Under section 608, of course, the mortgage can be 90 percent of the estimated cost?

Mr. WOLOSOFF. Of the Commissioner's estimated cost.

Mr. SIMON. Did you have any conversation with FHA personnel that induced you to build section 608's?

Mr. WOLOSOFF. There was conversation in my office. I didn't have it directly. It was had with my brother, whom I have since lost.

Mr. SIMON. You told this committee in executive session recently that FHA people told you——

Mr. WOLOSOFF. I am coming to that, sir.

Mr. SIMON. Would you tell us that?

Mr. WOLOSOFF. Yes, sir.

There were FHA people who used to inspect the section 207.

Mr. SIMON. That is your Kew Gardens project?

Mr. WOLOSOFF. That is right, Kew Gardens Hill.

Mr. SIMON. Incidentally, the cost of building Kew Gardens Hills under section 207 was substantially in excess of the mortgage?

Mr. WOLOSOFF. Very much so.

Mr. SIMON. You had a substantial investment in that project?

Mr. WOLOSOFF. Yes, sir; by far more than I had anticipated.

Mr. SIMON. These inspectors had these conversations?

Mr. WOLOSOFF. May I proceed?

Mr. SIMON. Yes, sir.

Mr. WOLOSOFF. At one time when these inspectors were over to Kew Gardens Hills they stopped into our office, which was in the vicinity of the Kew Gardens Hills project, and they talked to my brother about the advantages of going into the new program of section 608.

Mr. SIMON. Did you recall when this was, Mr. Wolosoff?

Mr. WOLOSOFF. I would say it was in around 1946.

Mr. SIMON. What did they say?

Mr. WOLOSOFF. I don't remember the words that they used, but in essence they thought it would be a favorable plan for us to participate in the section 608 program.

Mr. SIMON. Did they tell you that you could build these buildings without putting up any of your own money?

Mr. WOLOSOFF. They didn't tell me that. But the implication was that the terms were favorable. I don't think that they would know at the time whether one would have to put in money or not. They knew that we were efficient builders, well financed, and they thought that we could do very well with it.

Mr. SIMON. They gave you a sales talk for going into the section 698 program?

Mr. WOLOSOFF. That is right, sir. They were eager that we participate in the program.

We got the impression at the time that FHA was sending people around to—

Mr. SIMON. Promote the projects?

Mr. WOLOSOFF. To get builders, efficient and capable builders, who would help further the section 608 program. Of course, you recall that at that time housing was in very great demand, and FHA in order to do their job needed the help of builders who were capable of constructing large-sized projects.

Mr. SIMON. Did they give you the impression that you could build these section 608's without investing any money?

Mr. WOLOSOFF. I can't say as to that, sir. All I can recall is that they said that the terms and conditions were very favorable and attractive and that it would be advisable for us from a business point of view to participate in the section 608 program.

Mr. SIMON. When did you build Alley Pond?

Mr. WOLOSOFF. Alley Pond, I think was built in around 1949.

Mr. SIMON. 1949?

Mr. WOLOSOFF. That is right, sir.

Mr. SIMON. When did you build Campus Hall?

Mr. WOLOSOFF. Campus Hall was built around 1951.

Mr. SIMON. 1951?

Mr. WOLOSOFF. It was completed, I believe, early in 1952.

Mr. SIMON. And Lakeview Apartments Nos. 1 and 2: when was that built?

Mr. WOLOSOFF. We started that around the latter part of 1949.

Mr. SIMON. 1949?

Mr. WOLOSOFF. Yes.

Mr. SIMON. You finished it in 1950?

Mr. WOLOSOFF. I don't remember the finishing date.

Mr. SIMON. We already have had testimony from your brother about Alley Pond, and my recollection is that the mortgage proceeds exceeded the costs by somewhere around 3 to 3½ million dollars; is that right?

Mr. WOLOSOFF. I beg pardon?

Mr. SIMON. We have already had testimony with respect to Alley Pond Park from your brother; is that right?

Mr. WOLOSOFF. That is right.

Mr. SIMON. That was your brother who testified here a month or so ago?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. Do you recall the amount that he gave as the amount by which the mortgage proceeds exceeded costs?

Mr. WOLOSOFF. No, sir; I don't remember those figures.

Mr. SIMON. Wasn't it somewhere around 3 or 3½ million dollars?

Mr. WOLOSOFF. I question that seriously.

Mr. SIMON. You do?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. Isn't this the company that now has some three and a half million dollars in cash in the bank and a half million dollars of mortgages?

Mr. WOLOSOFF. I am sorry to report it is not so.

Mr. SIMON. What was the difference?

Mr. WOLOSOFF. I beg pardon?

Mr. SIMON. What was the difference?

Mr. WOLOSOFF. It was very, very far from that figure.

Mr. SIMON. Isn't your brother Morton Wolosoff?

Mr. WOLOSOFF. That is right.

Mr. SIMON. Have you read his testimony here the last time?

Mr. WOLOSOFF. I read his testimony.

Mr. SIMON. Campus Hall—

Mr. WOLOSOFF. We don't have any three and a half million dollars.

Mr. SIMON. Maybe I have a different project in mind.

Mr. WOLOSOFF. I am quite certain it is another project.

Mr. SIMON. Do you have the figures on the difference between the mortgage costs and the mortgage for Alley Pond?

Mr. WOLOSOFF. I don't have the figures, but if you will give me a minute I will try and refresh my recollection on it.

Mr. SIMON. Fine.

Mr. WOLOSOFF. I would say it came closer to a half million dollars—

Mr. SIMON. Closer to a half million dollars?

Mr. WOLOSOFF. Than the figure that you have stated.

Mr. SIMON. You don't have any figure or files or papers?

Mr. WOLOSOFF. No, sir. I am not prepared to testify on Alley Pond. I felt inasmuch as my brother had testified there would be no need for me to do so.

Mr. SIMON. You can't recall any closer than a half million dollars the difference?

Mr. WOLOSOFF. That is right. Mind you, this is without referring to the books. I am depending entirely on my memory.

Mr. SIMON. I try to keep about 300 of these projects in my mind and I thought maybe you could have 3 of them.

Mr. WOLOSOFF. I know the difficulty you encounter.

Mr. SIMON. Going to Lakeview Apartments, there you owned 50 percent of the stock; is that right?

Mr. WOLOSOFF. That is right.

Mr. SIMON. The stock was \$10,000?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. Where is that project located?

Mr. WOLOSOFF. That project is located in Forest Hills.

Mr. SIMON. Where?

Mr. WOLOSOFF. On 66th Road and 110th Street.

Mr. SIMON. How large a project is it?

Mr. WOLOSOFF. There are two projects. There is Lakeview 1 and Lakeview 2. May I suggest that for the purpose of simplicity we consider them one project?

Mr. SIMON. Right. I take it they really are physically one project.

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. What was the number of units?

Mr. WOLOSOFF. Together there are 368 apartments.

Mr. SIMON. What was the amount of the mortgage—the two mortgages?

Mr. WOLOSOFF. 366 apartments. I am sorry.

Mr. SIMON. What was the amount of the mortgage?

Mr. WOLOSOFF. The amount of the mortgages were \$3,068,000.

Mr. SIMON. What premium did you get on the sale of the mortgages?

Mr. WOLOSOFF. \$34,514.

Mr. SIMON. Who built the buildings?

Mr. WOLOSOFF. 66th Road Construction Corp.

Mr. SIMON. Were the same people the stockholders of the construction company that owned the building company?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. And what was the capital stock of the construction company?

Mr. WOLOSOFF. I don't remember that, but it was nominal.

Mr. SIMON. What do you mean by "nominal," a thousand dollars?

Mr. WOLOSOFF. I imagine it was over a thousand dollars, but I would say not in excess of \$5,000.

Mr. SIMON. What was the cost to the construction company of building the building?

Mr. WOLOSOFF. \$2,424,000.

Mr. SIMON. Were there any other costs in connection with construction?

Mr. WOLOSOFF. Not that I have in my records, sir.

Mr. SIMON. Does the \$2,424,000 include interest during construction?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. Taxes and carrying charges, everything else?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. So that the mortgage proceeds exceeded the costs by \$677,000?

Mr. WOLOSOFF. No, sir. The figures that I have show this: that the differential between the amount of the mortgage and the cost was \$609,265. If you were to add the mortgage premium you would add \$35,514 to that, and get something in the neighborhood of \$643,000 or \$644,000.

Mr. SIMON. What did you say, Mr. Wolosoff, were the costs?

Mr. WOLOSOFF. The cost was \$2,424,000.

Mr. SIMON. In order to get that figure, don't the costs have to be \$2,458,000? Frankly, I have the same final figure that you have, but I get that with a cost of \$2,458,000.

Mr. WOLOSOFF. If you will pardon me a minute, I will refer to my statement.

Mr. SIMON. If you will add the figure on page 2 in the second paragraph, which is \$1,224,000 to the one on the top of page 4 of \$1,234,000, you will get a total of \$2,458,000.

Mr. WOLOSOFF. I am advised I left out the interest and carrying charges.

Mr. SIMON. So the \$2,458,000 is the cost?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. The total mortgage proceeds exceeded the total costs then by \$643,780, is that right?

Mr. WOLOSOFF. Yes, sir. That is including the mortgage premium.

Mr. SIMON. And including all the interest and carrying charges?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. Is the land included in the mortgage?

Mr. WOLOSOFF. No, sir. The land is owned by Mr. Minkin and myself.

Mr. SIMON. The project is built on a 99-year leasehold?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. Did you and Mr. Minkin buy this land in 1943 for \$117,712?

Mr. WOLOSOFF. Yes, sir. We bought it at an auction sale in 1943 for that amount of money.

Mr. SIMON. Did FHA value the land at \$560,000?

Mr. WOLOSOFF. That was the redemption price they put on.

Mr. SIMON. The rental is based on that price?

Mr. WOLOSOFF. The rental is based upon 4 percent of that price.

Mr. SIMON. Which is \$22,400 a year?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. You get \$22,400 a year for 99 years? Is that right?

Mr. WOLOSOFF. Yes, sir; for our ownership of the land.

Mr. SIMON. Is there a mortgage on the land?

Mr. WOLOSOFF. No, sir.

Mr. SIMON. Now, the third project you built was Campus Hall.

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. Do you have the figures on that?

Mr. WOLOSOFF. No, sir. I didn't bring those figures. I wasn't asked to bring them. As a matter of fact, in the session with Mr. Hogue we talked about those figures, and it appeared that we couldn't get them on time. Mr. Hogue said that we may as well forget about them.

Mr. SIMON. Weren't the costs there less than the mortgage?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. Do you know how much less?

Mr. WOLOSOFF. I would say about 10 percent.

Mr. SIMON. Ten percent of what?

Mr. WOLOSOFF. Ten percent less than the mortgage.

Mr. SIMON. What was the mortgage?

Mr. WOLOSOFF. The mortgage to my best recollection was in the vicinity of \$8 million.

Mr. SIMON. So that the mortgage proceeds exceeded the costs by somewhere—

Mr. WOLOSOFF. About \$750,000 to \$800,000. I would say somewhere in that vicinity.

Mr. SIMON. Is that including the mortgage premium or not?

Mr. WOLOSOFF. To my best recollection, that is so. At that time the premiums were very, very low. That wouldn't make much difference.

Mr. SIMON. Where is the Campus Hall located?

Mr. WOLOSOFF. In the vicinity of Jewel Hill, 150th Street, Kew Gardens Hills.

Mr. SIMON. How big a project is it?

Mr. WOLOSOFF. It has 950 apartments.

Mr. SIMON. It was built in 1951?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. To the best of your recollection, the mortgage proceeds exceeded the costs by \$750,000 to \$800,000?

Mr. WOLOSOFF. Yes, sir.

Senator PAYNE. I am curious, Mr. Wolosoff, going back to the fact that you said that the inspectors from the FHA had more or less encouraged the getting into this section 608 program.

In filing the applications for these section 608 projects, did you make out the applications yourself?

Mr. WOLOSOFF. We had brokers make them out.

Senator PAYNE. Did you check the application form after the brokers made them out?

Mr. WOLOSOFF. I looked at them.

Senator PAYNE. Do you recall how much architect's fees were established at?

Mr. WOLOSOFF. Yes, sir; they were established at 5 percent, and builder's fees at 5 percent.

Senator PAYNE. Do you know whether or not the FHA employees perhaps may have indicated—did they indicate to you or do you know whether or not they indicated to your brokers that 5 percent was the figure to put in there?

Mr. WOLOSOFF. It was my impression that that was the allowance that was made for those two items.

Senator PAYNE. What were the architect's fees normally on projects of this size?

Mr. WOLOSOFF. The architect's fees for the part of the job that they did ran about 1 percent. May I call your attention to the fact that we as builders were doing a considerable amount of the work which normally would have been done by architects. I would not have built that project for 5 percent as a builder's fee, but I think that it was fair to have a 10 percent for builder's and architect's fee, considering that the builder was doing a considerable amount of work that was normally done by architects, such as supervision, procurement of materials, helping and letting out of contract, and so forth. These were undertakings that were performed by our company, and we had to pay money for them, not to the architect but to those who performed these duties.

Senator PAYNE. That did build up the total projected cost of the project, didn't it?

Mr. WOLOSOFF. Yes, sir.

Senator PAYNE. When, in effect, the Government was insuring the project on the 90-percent basis, presumably.

Mr. WOLOSOFF. Yes, sir.

Senator PAYNE. That is right, isn't it?

Mr. WOLOSOFF. Yes, sir.

Senator PAYNE. So there was an inflated figure that was put in there?

Mr. WOLOSOFF. I don't understand you altogether; I am sorry.

Senator PAYNE. The mortgage was supposed to be negotiated on 90 percent. The Government participation was a 90-percent insurance upon the projected cost. That is right, is it not?

Mr. WOLOSOFF. On the estimated cost of the Commissioner. Not on our estimated cost, but on the Commissioner's estimated cost.

Senator PAYNE. Understand me, I am not being critical of you at all. What I am trying to get at is who were the persons—this fits in a pattern that seemed to be pretty prevalent over the country, as a matter of fact, on putting these architect's fees at a figure that at least someone knew the architect's fee was not going to be.

Mr. WOLOSOFF. I think that became FHA policy, if you should ask me. I can't pinpoint the man.

Senator PAYNE. That is what I am trying to get at, whether or not you know of your own knowledge that FHA people definitely said put in 5 percent of this.

Mr. WOLOSOFF. No, sir. I don't know any one man who said that was the pattern, but I knew that was the pattern that had developed after a while.

Senator PAYNE. That did build up the total which then would make it possible perhaps so that your actual costs might come very close to, or be less than the amount of the mortgage, which is supposed to be 90 percent?

Mr. WOLOSOFF. Yes, sir.

Senator PAYNE. Thank you.

Senator BEALL. No questions.

Mr. SIMON. I have one more question.

Mr. WOLOSOFF, you said you wouldn't have built this building for a 5-percent profit. Did you build the building to make a profit out of the mortgage or did you build the building to have a rental income property out of which you could make a profit out of owning?

Mr. WOLOSOFF. I think my testimony on that was given on Friday.

Mr. SIMON. I wasn't there. Could you tell us today?

Mr. WOLOSOFF. Let me have your question again.

Mr. SIMON. My question is whether you built this building to make a profit out of the mortgage money, or whether you built the building to own an income-bearing property and make your money out of the income from the property?

Mr. WOLOSOFF. Mr. Simon, at the time that we went into these projects, we had no way of knowing whether there would be an excess of mortgage money or shortage of mortgage money.

Mr. SIMON. All I want to know is whether you went into this project—

Mr. WOLOSOFF. I didn't go in for any one reason. I went in for a number of reasons, all of which added up to the likelihood that it would be favorable. It was a risky situation.

Mr. SIMON. Is what you are saying you wanted both to make a profit out of the mortgage money and also own the property and make a profit out of the operation?

Mr. WOLOSOFF. I was not sure I could make a profit. I was not sure whether there would be a shortage of mortgage money. I did

hope that I could build it for less than the mortgage. I also knew that I would wind up owning the buildings. At that time, the ownership of the buildings was a questionable asset; if you want to know why I can tell you why.

Senator BUSH. I would like to hear a little bit about that.

Mr. WOLOSOFF. In those days we had to compete with the projects which were under rent control and we were building in locations that weren't at all comparable with the locations where the old rent-control buildings existed, nor did we have the size rooms that they had, nor did we offer rents as low as those rents, and it was a question at that time whether our buildings would rent.

Mr. SIMON. So that as a rental project this wasn't a very good financial risk, other than the fact that you could make some money out of the mortgage proceeds, is that right?

Mr. WOLOSOFF. I was not sure I would make money out of the mortgage proceeds and I was not sure as a rental project it would not be good. These were gamble elements in the proposition. We were not sure we would wind up with a profit. We were not sure we would wind up without a profit.

Mr. SIMON. Nothing is certain in life, but I gather from what you say that when you started, and whether you used the words "your hope" or "your intention" I gather it was either hope or intention or both, to make a profit out of the mortgage money and also own the properties and make a profit out of their operation?

Mr. WOLOSOFF. I would say it was my hope. Yes, sir.

Mr. SIMON. Now, who got the figures that went into the application? Who generated those figures?

Mr. WOLOSOFF. I suppose I had something to do with them. I don't recall exactly, but I believe I had something to do with them.

Mr. SIMON. Did the figures in the application represent your honest estimate of what this building was going to cost? Because you understand while the Commissioner makes the final estimate, you make the first estimate. Did the estimate in your application represent your own honest judgment of what the buildings would cost, or was it merely computed by taking the number of units and multiplying them by the statutory ceiling of \$8,100?

Mr. WOLOSOFF. To the best of my knowledge and ability, I was using a figure which I thought was somewhere near a fair estimate, considering that we had very little to go by.

Mr. SIMON. Is it just coincidence that the mortgage turns out to be the statutory ceiling of \$8,100 a unit?

Mr. WOLOSOFF. I can't tell you that. I believe my cost was in excess of that.

Mr. SIMON. You mean your estimate?

Mr. WOLOSOFF. My estimated costs.

Mr. SIMON. Your costs were \$643,000 less than that?

Mr. WOLOSOFF. No. My estimated costs were in excess.

Mr. SIMON. Your estimated costs were even in excess of the statutory limit?

Mr. WOLOSOFF. Might have been in excess. I don't remember how that worked out at that time.

Mr. SIMON. Your actual costs were 20 percent below the mortgage, right?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. And your estimated costs were more than 10 percent above the mortgage, is that right?

Mr. WOLOSOFF. If you want—

Mr. SIMON. Is that right?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. So that your actual costs were more than 30 percent off from your estimates?

Mr. WOLOSOFF. Yes, sir. I will tell you what makes that possible. We did not have very much to go by when we estimated the cost of these projects. There was just a sketch plan to go by, and we had to estimate the cost of these projects well in advance of the time that we were to build the project. It so happens at this time the construction market softened up very noticeably. We never anticipated that there would be that great a differential. However, because of the great softening of the construction market, the costs were lower by far than we anticipated.

Mr. SIMON. You built—the first of these projects you built was Alley Pond?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. And you had a half million dollar excess there. The second one was this one, which you had a \$643,000 excess, and the third one, in 1951, was Campus Hall, where you had an \$800,000 excess. So that—

Mr. WOLOSOFF. I think all of that bears out the thing that I said.

Mr. SIMON. Have we had falling building prices from 1949 through 1951?

Mr. WOLOSOFF. No. They have stiffened up a little on Alley Pond, if I recall.

Mr. SIMON. What about in 1951 when you built Campus Hall and ended up with \$800,000 in excess?

Mr. WOLOSOFF. Yes. That was only 10 percent.

Mr. SIMON. That is 20 percent actually, because your costs were supposed to be 10 percent over the mortgage, and it turned out to be 10 percent under the mortgage.

Mr. WOLOSOFF. The original was different. It was less than in the Lakeview case.

Mr. SIMON. Instead of being 30 percent off in the Lakeview case, you were only 20 percent off in the Campus Hall case?

Mr. WOLOSOFF. That is right.

Mr. SIMON. But still an awfully large percentage?

Mr. WOLOSOFF. I repeat, Mr. Simon, it was most difficult to anticipate 2 years in advance what would happen, and we had to use a safety margin.

Senator BUSH. I am going to ask you a couple of general questions that have no particular bearing on this, or only a general bearing, Mr. Wolosoff.

Mr. WOLOSOFF. Yes, sir.

Senator BUSH. You, of course, did a lot of conventional building before the 1946 period. Is that true?

Mr. WOLOSOFF. Yes, sir.

Senator BUSH. How long have you been in the building business?

Mr. WOLOSOFF. For something over 30 years.

Senator BUSH. Have you built rental projects, apartment houses, for rental projects in the conventional manner, so to speak?

Mr. WOLOSOFF. No, sir.

Senator BUSH. You never did that?

Mr. WOLOSOFF. No, sir. I did mostly single-family houses. I did shopping centers, garages, things of that kind.

Senator BUSH. Did you build houses and continue to own them for investment?

Mr. WOLOSOFF. Only business buildings did I continue to own for investment. I didn't build any residential apartment houses.

Senator BUSH. Residential houses didn't appeal to you as a satisfactory investment at that time?

Mr. WOLOSOFF. I don't remember what my mind was at the time, but I was satisfied with the thing that I was doing. I was building one-family houses. I enjoyed building one-family houses and was satisfied with the houses I built.

Senator BUSH. Let's put the FHA business aside. Today, what is your opinion of the market in your area for conventional building of residential property, either single-family or apartment-house building? Are you intrigued with it?

Mr. WOLOSOFF. At the present time I am interested in an apartment project in Manhattan.

Senator BUSH. On conventional?

Mr. WOLOSOFF. On a conventional basis.

Senator BUSH. As an investment for yourself?

Mr. WOLOSOFF. Yes, sir.

Senator BUSH. Is it the kind of investment you think is a good investment to hold on to after it is a finished, going concern?

Mr. WOLOSOFF. I think it is good from several points of view. I think it is a good thing to hold onto and I think that if I don't want to hold onto it, I can sell my interest in this project, and do at least as well as I did under FHA projects.

Senator BUSH. So that you feel from your own observation that the housing—the residential-housing business—could proceed pretty well on its own feet, so to speak?

Mr. WOLOSOFF. I do; that is my honest opinion.

Senator BUSH. The conventional way of doing business would permit the builders, and real-estate people, going ahead and doing a job which would answer the requirements of the public, so to speak?

Mr. WOLOSOFF. I think that is possible at the present time.

Senator BUSH. Thank you very much.

Senator PAYNE. I just want to make one observation. I think Mr. Wolosoff has been very cooperative on this. With his long experience in the building field, I want to ask just this one question: Isn't it true that during that period of time, on these projects that we were previously discussing, when they were under construction and you filed estimates on them, that there were certain material shortages and critical shortages that you couldn't definitely plan too much in advance as to what that price structure was going to be? You had to safeguard yourself accordingly?

Mr. WOLOSOFF. Very definitely; yes.

Senator PAYNE. Thank you.

Senator BUSH. The committee is grateful to you, sir.

Mr. Hyman H. Zarett. Mr. Zarett, will you please raise your right hand? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF HYMAN H. ZARETT, BAYSHORE GARDENS,  
BROOKLYN, N. Y.**

Mr. ZARETT. I do.

Senator BUSH. Please give your name to the clerk.

Mr. ZARETT. Hyman H. Zarett, 616 Canton Avenue, Brooklyn.

Senator BUSH. Mr. Simon.

Mr. SIMON. Mr. Zarett, are you one of the builders of Bayshore Gardens?

Mr. ZARETT. I am, sir.

Mr. SIMON. Where is Bayshore Gardens located?

Mr. ZARETT. In Brooklyn, bounded by Brighton 11th, Brighton 12th Street, and Cass Place.

Mr. SIMON. Is Bayshore Gardens, Inc., the company that built the building?

Mr. ZARETT. Yes, sir.

Mr. SIMON. What was the capital stock of Bayshore Gardens, Inc.?

Mr. ZARETT. \$10,500.

Mr. SIMON. Was that paid for in cash?

Mr. ZARETT. That is right, sir.

Mr. SIMON. And you bought 50 percent of it?

Mr. ZARETT. Well, no sir. I finally wound up with one-third of it.

Mr. SIMON. I am talking about initially.

Mr. ZARETT. Yes, sir.

Mr. SIMON. You put up \$5,000 for 50 percent of it?

Mr. ZARETT. No, sir. It worked a little differently. I originally bought this parcel with a previous associate of mine, and I don't know what the figures were when the corporation—I think it was \$3,500; is that right?

Mr. SIMON. When the corporation was organized, what was the capital stock?

Mr. ZARETT. I am not sure of that figure. I know when the building was started, there were new people came in with me.

Mr. SIMON. When it started you and Sylvia Lane were the two stockholders?

Mr. ZARETT. Yes.

Mr. SIMON. Each of you owned 50 shares?

Mr. ZARETT. Yes; that is right.

Mr. SIMON. There were a total of 100 shares?

Mr. ZARETT. Yes.

Mr. SIMON. How much did you and Sylvia Lane pay for your shares? Did you put in money for the stock or did you put up land for it?

Mr. ZARETT. Yes. Now you refresh me. We put up land for it. The cost of the land was—

Mr. SIMON. \$31,479?

Mr. ZARETT. That is quite right, sir.

Mr. SIMON. Did you put any cash up for the stock?

Mr. ZARETT. No; I didn't.

Mr. SIMON. You just put up the land?

Mr. ZARETT. That is right.

Mr. SIMON. You got reimbursed for the land out of the proceeds of the mortgage; is that right?

Mr. ZARETT. Yes, sir.

Mr. SIMON. Now the mortgage was \$1,335,600?

Mr. ZARETT. That is right, sir.

Mr. SIMON. And the cost of construction was how much?

Mr. ZARETT. The cost of construction was \$1,154,107.77.

Mr. SIMON. That figure includes the cost of the land and it also includes the interim financing such as interest, taxes, and carrying charges?

Mr. ZARETT. That is right, sir.

Mr. SIMON. Who built the building?

Mr. ZARETT. Bayshore Gardens, Inc.

Mr. SIMON. The sponsor was its own general contractor?

Mr. ZARETT. That is right.

Mr. SIMON. There was a premium on the mortgage of \$34,407; is that right?

Mr. ZARETT. That is quite right.

Mr. SIMON. So that the proceeds of the mortgage exceeded total costs of land, buildings, carrying charges, and everything else by \$224,899?

Mr. ZARETT. That is right, sir.

Mr. SIMON. And this excess cost over—excess mortgage proceeds over cost is after reimbursing you for the cost of the land?

Mr. ZARETT. That is right.

Mr. SIMON. And the land was the only thing that was turned in for the stock?

Mr. ZARETT. No, sir. We had a capitalization. There was additional capitalization that I was trying to tell you. The cash capitalization was \$10,500 in addition to the land.

Mr. SIMON. Who put that in?

Mr. ZARETT. Myself and my associates. I had \$3,500 originally, my accountant informs me from the books, and Mr. Speigel and Mr. Lehrer put in \$7,500 in addition.

Mr. SIMON. You testified previously that Sylvia Lane didn't want to go ahead with this project.

Mr. ZARETT. That is right.

Mr. SIMON. Why didn't she want to go ahead with it?

Mr. ZARETT. Mr. Lane, her husband, who was the real party in interest had suffered a heart attack just about the time the commitment came out.

Mr. SIMON. You also testified that Speigel and Lehrer, that is Jack Speigel, and Isadore Lehrer, bought her out; is that right?

Mr. ZARETT. That is right.

Mr. SIMON. You said they wanted a two-third interest and so you gave them one-sixth in order that they might have two-thirds and you one-third; is that right?

Mr. ZARETT. That is right.

Mr. SIMON. Why would you give them a sixth of something that was as good as this?

Mr. ZARETT. It was very apparent, I didn't know how good it was at that time and I didn't want to build it for investment. They had the money and they made the terms.

Mr. SIMON. You didn't want to build it for investment?

Mr. ZARETT. I did want to build this property for investment. Since they had the money they drove the bargain and those terms were decided on.

Mr. SIMON. In spite of the fact you were building it for an investment costs were 18 percent less than the mortgage, and the original estimate would have to have the costs at at least 10 percent above the mortgage?

Mr. ZARETT. That is right.

Mr. SIMON. So your costs were 28 percent off from your estimate and the FHA Commissioner's estimate?

Mr. ZARETT. It appears that. That is right.

Mr. SIMON. When did you build this building?

Mr. ZARETT. We started it in 1949 and we finished in 1950.

Mr. SIMON. Thank you, sir.

Senator BUSH. Any questions?

Senator BEALL. No questions.

Senator PAYNE. No.

Senator BUSH. Thank you very much.

Mr. Kalman Klein. Will you please raise your right hand, Mr. Klein?

Do you solemnly swear the testimony you give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KLEIN. Yes, sir.

#### TESTIMONY OF KALMAN KLEIN, LANGDALE, BELLROSE, LONG ISLAND, N. Y.

Senator BUSH. Will you give your name to the clerk, please, and your correct address?

Mr. KLEIN. Kalman Klein, address is 2050 Lakeville Road, New Hyde Park, Long Island.

Senator BUSH. Mr. Simon.

Mr. SIMON. Did you build the Langdale project?

Mr. KLEIN. Yes, sir.

Mr. SIMON. Where is that?

Mr. KLEIN. Bellrose, Queens.

Mr. SIMON. Can you give us the streets?

Mr. KLEIN. Well, Langdale Street and 269th Street, 268th.

Mr. SIMON. There are two corporations, are there, Langdale Corp. No. 1 and Langdale No. 2?

Mr. KLEIN. Yes, sir.

Mr. SIMON. What was the amount of the mortgage there?

Mr. KLEIN. The total or the 1 and 2 separate?

Mr. SIMON. Total if you have them.

Mr. KLEIN. Total of the 2, \$3,014,400.

Mr. SIMON. Who built the building?

Mr. KLEIN. Langdale 1 and Langdale 2.

Mr. SIMON. That is, the sponsor was its own contractor?

Mr. KLEIN. Yes.

- Mr. SIMON. What was the premium on the mortgage?
- Mr. KLEIN. The total mortgage, \$105,433.81.
- Mr. SIMON. What was the actual cost of construction?
- Mr. KLEIN. Actual cost was \$244,220—
- Mr. SIMON. You mean \$2 million, don't you?
- Mr. KLEIN. \$2,442,201.98.
- Mr. SIMON. Doesn't that include \$40,000 of salaries you paid yourselves?
- Mr. KLEIN. That is right.
- Mr. SIMON. So it would be \$2,402,000, excluding the salaries you paid yourselves?
- Mr. KLEIN. Yes, sir.
- Mr. SIMON. And the proceeds of the mortgage were \$3,119,000?
- Mr. KLEIN. The proceeds of the mortgage were \$3,014,400.
- Mr. SIMON. \$3,014,000, and the premium was 105?
- Mr. KLEIN. That is correct.
- Mr. SIMON. When you sold the mortgage you got a total of \$3,119,000?
- Mr. KLEIN. That is right.
- Mr. SIMON. The difference is \$717,000; is that right?
- Mr. KLEIN. That is correct, sir.
- Mr. SIMON. Which is about 23 percent, isn't it? Or is it 24 percent?
- Mr. KLEIN. I haven't figured the percentage.
- Mr. SIMON. And that is 23 or 24 percent under the mortgage. Instead of being 10 percent over the mortgage, or a total difference—
- Mr. KLEIN. That is including the mortgage premium, of course.
- Mr. SIMON. Yes, but the difference between the commissioner's estimate of cost, which is to be 10 percent above the mortgage, and your actual costs, is about 33 or 34 percent, isn't it?
- Mr. KLEIN. If that is the arithmetic, that is correct.
- Mr. SIMON. You also built Austin Gardens?
- Mr. KLEIN. Yes, sir.
- Mr. SIMON. Where is that located?
- Mr. KLEIN. That is located in Forest Hills on Austin Street.
- Mr. SIMON. 75-02 Austin Street?
- Mr. KLEIN. That is right.
- Mr. SIMON. What was the amount of the mortgage there?
- Mr. KLEIN. \$1,249,200.
- Mr. SIMON. And the premium?
- Mr. KLEIN. The premium was \$44,763.
- Mr. SIMON. Who built the building?
- Mr. KLEIN. The Austin Street Realty Corp. built it.
- Mr. SIMON. What was its cost?
- Mr. KLEIN. The cost was \$1,217,548.78.
- Mr. SIMON. Does that include all of its costs?
- Mr. KLEIN. Yes, sir.
- Mr. SIMON. I understand in that case there is no salary either?
- Mr. KLEIN. No, sir.
- Mr. SIMON. So the difference there was—
- Mr. KLEIN. \$31,621.42.
- Mr. SIMON. Plus the \$44,000 premium, or \$75,700 for the 2 of them?
- Mr. KLEIN. That is right.

Mr. SIMON. Thank you, sir.

Senator PAYNE. Did anybody encourage you to get into this?

Mr. KLEIN. No, sir. It was an inspiration.

Senator PAYNE. Are you happy with it?

Mr. KLEIN. I am sad.

Senator BUSH. Thank you very much.

Mr. David Minkin. Mr. Minkin, will you raise your right hand, please?

Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MINKIN. I do.

**TESTIMONY OF DAVID MINKIN, FRANKLIN GARDENS, BROOKLYN, N. Y., ETC., ACCOMPANIED BY ROBERT H. WINN, COUNSEL**

Senator BUSH. Will you give your correct name and address to the clerk?

Mr. MINKIN. David Minkin, 186 Joralemon Street, Brooklyn, N. Y.

Mr. SIMON. Mr. Minkin, you were in the room a few minutes ago, were you, when Mr. Alvin Wolosoff testified?

Mr. MINKIN. Yes, sir.

Mr. SIMON. And he testified about the Lakeview project in which the mortgage proceeds exceeded the cost by roughly \$650,000, and said he owned 50 percent of the stock in that company, and David Minkin owned the other 50 percent.

Are you that David Minkin?

Mr. MINKIN. I am, sir.

Mr. SIMON. In addition to being a partner in that one, did you build the Franklin Gardens project in Brooklyn?

Mr. MINKIN. I did, sir.

Mr. SIMON. Where is that project located?

Mr. MINKIN. That is on Ash Avenue between Pasena Boulevard and Bound Street, Flushing, Long Island.

Mr. SIMON. How large a project is it?

Mr. MINKIN. It consisted of three 6-story elevator buildings, totaling 126 apartments, and I believe 54 garages.

Mr. SIMON. Is the building corporation the owner of the land or is it built on a leasehold?

Mr. MINKIN. It is built on a leasehold.

Mr. SIMON. Who owns the land?

Mr. MINKIN. I and my associates.

Mr. SIMON. The same people own the land who own the stock in the building company?

Mr. MINKIN. That is correct, sir.

Mr. SIMON. And did you pay \$40,700 for the land?

Mr. MINKIN. That is right.

Mr. SIMON. And FHA valued it at \$70,000?

Mr. MINKIN. That is right, sir.

Mr. SIMON. And you get \$2,800 a year ground rent for 99 years?

Mr. MINKIN. That is right, sir.

Mr. SIMON. Is there a mortgage on the land?

Mr. MINKIN. No, sir.

Mr. SIMON. There isn't. The mortgage on the building was \$1,087,000?

Mr. MINKIN. That is right.

Mr. SIMON. Was there a premium?

Mr. MINKIN. There was.

Mr. SIMON. What was the amount of the premium?

Mr. MINKIN. \$13,587.50.

Mr. SIMON. Or \$1,100,000 for the amount of money you got for selling the mortgage?

Mr. MINKIN. That is right.

Mr. SIMON. Who built the building?

Mr. MINKIN. Ashbone Construction Corp.

Mr. SIMON. Who were the stockholders of that company?

Mr. MINKIN. The same stockholders as the sponsor.

Mr. SIMON. What were the actual costs of construction?

Mr. MINKIN. The total costs—

Mr. SIMON. Actual costs, the amount of money you actually paid to anybody for everything connected with this.

Mr. MINKIN. \$881,364.74.

Mr. SIMON. Does that include the interest and carrying charges and taxes during construction?

Mr. MINKIN. That is correct, sir.

Mr. SIMON. That includes everything?

Mr. MINKIN. That is right, sir.

Mr. SIMON. Therefore, the difference between the mortgage proceeds and the total costs were \$219,000, is that right?

Mr. MINKIN. That is right, sir.

Mr. SIMON. And that is roughly 20 percent below—the actual costs are roughly 20 percent below the mortgage?

Mr. MINKIN. That is right.

Mr. SIMON. The mortgage was supposed to be 10 percent below the estimate of cost by the FHA Commissioner?

Mr. MINKIN. That is right.

Mr. SIMON. So the total costs turned out to be 30 percent lower than the Commissioner's estimate of costs?

Mr. MINKIN. That is right.

Mr. SIMON. When was the project built?

Mr. MINKIN. In 1949, and completed in 1950.

Mr. SIMON. As I understand it, you had three other projects which you built under section 608?

Mr. MINKIN. I did, sir; two others.

Mr. SIMON. And what were they?

Mr. MINKIN. One is the Riverview Terrace Corp.

Mr. SIMON. Where is that located?

Mr. MINKIN. On 21st Avenue and 19th Street in Shore Boulevard, Astoria, Long Island.

Mr. SIMON. How big a project is that?

Mr. MINKIN. That was about 168 units and I believe approximately 70 garages.

Mr. SIMON. What was the third one?

Mr. MINKIN. Pomonok Crest Apartments.

Mr. SIMON. Where is that located?

Mr. MINKIN. That is over at 71st Avenue and Parsons Boulevard, Flushing.

Mr. SIMON. Did the mortgage proceeds exceed the costs in those two?

Mr. MINKIN. Yes, sir.

Mr. SIMON. In Riverview Terrace, what was the amount of the mortgage?

Mr. MINKIN. Approximately \$1,400,000.

Mr. SIMON. Was that built on a leasehold?

Mr. MINKIN. No, sir.

Mr. SIMON. Was it built on land that the corporation owns?

Mr. MINKIN. That is right.

Mr. SIMON. What was the cost of the land?

Mr. MINKIN. I can't say exactly, but somewhere near \$45,000.

Mr. SIMON. What was the cost of constructing the building?

Mr. MINKIN. I don't have those figures with me, sir, but I would say that, about 10 percent less than the total amount of the mortgage.

Mr. SIMON. You are saying the total costs, land, building, and financing charges were about \$140,000 less than the mortgage?

Mr. MINKIN. Approximately. About that figure.

Mr. SIMON. And what about Pomonok Apartments? What was the amount of the mortgages there?

Mr. MINKIN. \$1,525,000.

Mr. SIMON. Does the building corporation own the land?

Mr. MINKIN. No, sir.

Mr. SIMON. That is built on leased land?

Mr. MINKIN. Yes, sir.

Mr. SIMON. Who owns that land?

Mr. MINKIN. The same officers.

Mr. SIMON. Same parties?

Mr. MINKIN. That is right.

Mr. SIMON. What was the cost of constructing the building?

Mr. WINN. He is testifying from memory here. It is hard enough for him to remember without the flash bulbs.

Mr. SIMON. Weren't you asked about a week or so ago, Mr. Minkin, these same questions?

Mr. MINKIN. No, sir.

Mr. WINN. Mr. Simon, may I say something in that connection?

Senator BUSH. What is the question?

Mr. SIMON. What the cost is.

Mr. WINN. Mr. Greenberg, who is Mr. Minkin's accountant and also Mr. Wolosoff's accountant, was present at the executive session. He has been doing some special work for the committee and it was impossible for Mr. Greenberg to get the information which was mentioned by Mr. Hogue in connection with these other projects, and Mr. Greenberg advised Mr. Hogue that that information could not be obtained within less than a week, and at that time I think it was decided that that would be too late. Mr. Hogue, am I correct in that?

Mr. HOGUE. That is right.

Mr. SIMON. When you say the accountants were doing some work for the committee, I take what you mean, Mr. Winn, is they were doing some work for other witnesses who were to appear before the committee.

Mr. WINN. All I know is the accountant said, "I am doing some special work for the committee." I didn't inquire into what it was.

Mr. SIMON. Let me assure you the committee hasn't retained any such accountants.

What was your best recollection, Mr. Minkin, as to the amounts by which the costs were less than the mortgage in Pomonok?

Mr. MINKIN. I would say about 10 percent.

Mr. SIMON. About \$150,000?

Mr. MINKIN. Somewheres about that.

Mr. SIMON. So that on the 3 projects, about \$5,000 of mortgage proceeds in excess of costs?

Mr. MINKIN. Approximately.

Mr. SIMON. Thank you.

Senator BUSH. Any questions?

Senator PAYNE. No questions.

Senator BEALL. No questions.

Senator BUSH. What is your regular business, Mr. Minkin?

Mr. MINKIN. I have been a builder all my life, for over 30 years.

Senator BUSH. What is your impression of the market in your area now for rental projects that would interest you? Is it pretty good or not?

Mr. MINKIN. I would say very good.

Senator BUSH. There is still a real need for the development of rental projects, rental homes?

Mr. MINKIN. Yes, sir.

Senator BUSH. Both individual and apartment house type?

Mr. MINKIN. That is right.

Senator BUSH. Are you interested now in going ahead with projects on a conventional basis without FHA insurance?

Mr. MINKIN. I am not in any project whatsoever at the moment.

Senator BUSH. My question is more or less directed to this point: Is the market such as to interest you, if you weren't otherwise occupied, in going ahead with rental housing projects, on a conventional basis?

Mr. MINKIN. Yes, sir; I would.

Senator BUSH. The market is good enough for that?

Mr. MINKIN. Very good.

Senator BUSH. Without any FHA insurance?

Mr. MINKIN. Very good market.

Senator BUSH. And do you think that the conditions of the conventional market, so to speak, are such as to attract the interest of builders and attract capital into that type of venture today?

Mr. MINKIN. I believe so.

Senator BUSH. Do you know many people that are going ahead on a conventional basis and building rental homes, and both apartment houses and individual types?

Mr. MINKIN. There are quite a number of them at present.

Senator BUSH. Quite a lot of them going ahead on a conventional basis?

Mr. MINKIN. That is right.

Senator BUSH. Any other questions?

Mr. SIMON. You mentioned some accountants a moment ago, Mr. Winn. Do you know whether they are here today?

Mr. WINN. No, sir; I don't. I had hoped they would be here. Mr. Bard said he hoped to see them.

Mr. SIMON. We hoped to, too. You don't know where they are?

Mr. WINN. No.

Mr. SIMON. Will you try to reach—do you know where they are today?

Mr. WINN. No; I don't. I would be glad to try to get them for you.

Senator BUSH. If there are no further questions, thank you very much, Mr. Minkin.

We have one other witness this morning, Mr. Kessler. We understand Mr. Kessler has to proceed to the world series so we will hear him now. The question has been raised whether the gentleman has any extra seats.

Mr. Kessler, will you please raise your right hand? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth and nothing but the truth, so help you God?

TESTIMONY OF ALEX KESSLER, BRADDOCK GARDENS,  
QUEENS, N. Y.

Mr. KESSLER. I do.

Senator BUSH. Will you give your correct name and address to the reporter, please?

Mr. KESSLER. Alex Kessler, 163-18 Jamaica Avenue, Jamaica, Long Island.

Senator BUSH. Mr. Simon.

Mr. SIMON. Mr. Kessler, you are connected with the Braddock Gardens Apartments?

Mr. KESSLER. I was connected, sir. We have sold it.

Mr. SIMON. You and your wife and a man named Rosen—

Mr. KESSLER. And Perosi.

Mr. SIMON. Built the building?

Mr. KESSLER. Yes.

Mr. SIMON. What was the name of the company that built it; Braddock Gardens Apartments?

Mr. KESSLER. Braddock Gardens Apartments, Inc.

Mr. SIMON. Was the stock of that company \$2,500?

Mr. KESSLER. No, sir.

Mr. SIMON. What was the stock?

Mr. KESSLER. \$750—\$250 equally divided among 3 sponsors.

Mr. SIMON. The total stock was \$750?

Mr. KESSLER. Yes, sir.

Mr. SIMON. What was the amount of the mortgage?

Mr. KESSLER. \$1,310,000.

Mr. SIMON. Where was the property located?

Mr. KESSLER. On Braddock and Winchester Boulevard, in the county of Queens.

Mr. SIMON. That is in New York?

Mr. KESSLER. Yes, sir.

Mr. SIMON. The mortgage was \$1,310,000, and the premium was how much?

Mr. KESSLER. I will have to refer for that.

Mr. SIMON. Was it \$41,420?

Mr. KESSLER. I think it was \$49,000.

Mr. WINN. Yes.

Mr. SIMON. \$49,000?

Mr. WINN. \$125.

Mr. SIMON. \$49,125. The cost of the land was how much?

Mr. KESSLER. \$81,900, I believe.

Mr. SIMON. And what was the cost of constructing the building, including the financing charges and interest during construction and taxes?

Mr. KESSLER. \$958,500.

Mr. SIMON. The total costs, then, were \$319,000 less than the proceeds of the mortgage; is that right?

Mr. KESSLER. Including the premium; yes, sir.

Mr. SIMON. That is, the amount of money you got for selling the mortgage was \$319,000 less than the total cost of the project, including land, construction of the building, interest, taxes, and everything else?

Mr. KESSLER. That is correct, sir.

Mr. SIMON. And that is about 24 percent of the amount of the mortgage?

Mr. KESSLER. That would be right.

Mr. SIMON. And, of course, under the statute the mortgage was supposed to be 90 percent of the estimated cost, so that the estimated cost should be 10 percent above the mortgage?

Mr. KESSLER. Either that or 90 percent of replacement.

Mr. SIMON. The minimum of the estimated replacement cost?

Mr. KESSLER. Yes.

Mr. SIMON. When we have finished here, the actual cost was 34 percent less than the FHA Commissioner's estimate of the replacement cost?

Mr. KESSLER. That is correct.

Mr. SIMON. Thank you, sir.

Senator BUSH. There are no questions. Thank you very much. We appreciate your coming.

The committee will now stand in recess until 2 o'clock this afternoon. (Whereupon, at 12 noon, the committee recessed until 2 p. m., the same day.)

#### AFTERNOON SESSION

Senator BUSH. The committee will please be in order.

The first witness this afternoon is Martin Fisher.

Mr. Fisher, will you please raise your right hand? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF MARTIN FISHER, WOODBRIAR MANOR, JACKSON HEIGHTS, LONG ISLAND, N. Y., ETC.

Mr. FISHER. I do.

Senator BUSH. Will you give your name and correct address to the clerk, please?

Mr. FISHER. Martin Fisher, 120-44 Queens Boulevard, Kew Gardens 15, New York City.

Senator BUSH. Mr. Simon.

Mr. SIMON. Mr. Fisher, do you, and is it your brothers, own this Woodbriar Manor property?

Mr. FISHER. That is right.

Mr. SIMON. You and your two brothers?

Mr. FISHER. Yes, sir.

Mr. SIMON. Where is Woodbriar Manor located?

Mr. FISHER. Elmhurst Avenue and Brighton Avenue, in Jackson Heights, Queens.

Mr. SIMON. That is Long Island, N. Y.?

Mr. FISHER. Long Island, N. Y.

Mr. SIMON. 570 units?

Mr. FISHER. That is correct.

Mr. SIMON. Built under section 608 of the Housing Act?

Mr. FISHER. Yes, sir.

Mr. SIMON. What is the capital stock of Woodbriar Manor?

Mr. FISHER. \$1,000.

Mr. SIMON. Is the land owned by the building corporation or is it built on a leasehold?

Mr. FISHER. Built on a leasehold, sir.

Mr. SIMON. You bought the land, did you?

Mr. FISHER. Yes, sir.

Mr. SIMON. And are you the present owner of the land?

Mr. FISHER. Yes, sir.

Mr. SIMON. You have leased it for 99 years to the building corporation that has the FHA-insured mortgage?

Mr. FISHER. That is true.

Mr. SIMON. What is the amount of the mortgage?

Mr. WINN. Do you mean on the fee?

Mr. FISHER. \$4,867,300.

Mr. SIMON. Was there a premium on the sale of the mortgage?

Mr. FISHER. Yes, sir.

Mr. SIMON. What was the premium?

Mr. FISHER. A premium of 4 percent, which amounted to about, approximately \$195,000.

Mr. SIMON. Did you have to pay a part of that to somebody?

Mr. FISHER. Yes, sir. I paid part of it to Halpern & Co., half a point. The net amount was \$170,000, approximately.

Mr. SIMON. Total proceeds of the mortgage of \$5,037,000?

Mr. FISHER. That is about right, sir.

Mr. SIMON. Who built the building?

Mr. FISHER. The I. J. B. Realty Corp.

Mr. SIMON. Who were the stockholders of the I. J. B. Realty Corp.?

Mr. FISHER. Same stockholders as are in the Woodbriar.

Mr. SIMON. And that was also a \$1,000 capital stock corporation?

Mr. FISHER. Yes, sir.

Mr. SIMON. What was the actual cost of construction?

Mr. FISHER. \$3,963,085.39.

Mr. SIMON. Does that include the interest during construction, taxes, and financing charges?

Mr. FISHER. No, sir.

Mr. SIMON. Are you sure of that?

Mr. FISHER. Yes, I am sure.

Mr. WINN. It includes that.

Mr. FISHER. No, it doesn't.

Mr. SIMON. You are sure it does not include that?

Mr. FISHER. It does not include it.

Mr. SIMON. What were the other charges?

Mr. FISHER. They amounted to about \$100,000.

Mr. SIMON. \$100,000?

Mr. FISHER. That is right.

Mr. SIMON. The difference, then, between the mortgage proceeds and the total cost of construction is about \$950,000?

Mr. FISHER. That is about right; yes.

Mr. SIMON. And that was roughly 20 percent?

Mr. FISHER. Yes, sir.

Mr. SIMON. That is, the cost was 20 percent less than the mortgage proceeds?

Mr. FISHER. That is right, sir.

Mr. SIMON. And the mortgage was supposed to be 90 percent of the estimated cost so that the actual costs were 30 percent less than the estimated cost?

Mr. FISHER. I would say so.

Mr. SIMON. You also built Bennett Arms, Inc., did you?

Mr. FISHER. Yes, sir.

Mr. SIMON. You and your two brothers are the owners of that property?

Mr. FISHER. No. My 2 brothers and I have 50 percent of that.

Mr. SIMON. And Jarco Bros. has the other 50 percent?

Mr. FISHER. That is right.

Mr. SIMON. Who were Jarco Bros.?

Mr. FISHER. They are in the plumbing business and had an interest in this one particular project.

Mr. SIMON. Where is Bennett Arms located?

Mr. FISHER. It is 184th Street and Bennett Avenue in Manhattan.

Mr. SIMON. On that one the mortgage was \$535,000?

Mr. FISHER. That is right, sir.

Mr. SIMON. And on that project, the cost of the construction, including the financing charges and everything else, was about \$35,000 or \$40,000 less than the mortgage proceeds, is that right?

Mr. FISHER. Just a moment, sir.

Mr. SIMON. About a thousand dollars without the premium and a \$34,000 premium?

Mr. FISHER. No, sir. I think that the cost was very close to the mortgage.

Mr. SIMON. The cost without the premium was \$1,000 below the mortgage?

Mr. FISHER. That is right.

Mr. SIMON. The premium was \$34,000, so on that there was a \$35,000 excess of cost over mortgage proceeds?

Mr. FISHER. That is right.

Mr. SIMON. The next one was Lynn Terrace?

Mr. FISHER. Could I add one thing? The interim expenses were left out here so that actually adding the interim charges—

Mr. SIMON. You about broke even?

Mr. FISHER. That is right.

Mr. SIMON. Lynn Terrace was built by a corporation in which you and your brothers owned all the stock?

Mr. FISHER. That is right.

Mr. SIMON. What was the name of that corporation?

Mr. FISHER. Lynn Terrace Apartments No. 1, and Lynn Terrace Apartments No. 2, Inc.

Mr. SIMON. Incidentally, in Bennett Arms that was built on a leasehold also, wasn't it?

- Mr. FISHER. Yes, sir.
- Mr. SIMON. And you and your other stockholders owned the land?
- Mr. FISHER. That is right.
- Mr. SIMON. Was Lynn Terrace built on a leasehold?
- Mr. FISHER. No, sir.
- Mr. SIMON. There the land was sold to the company?
- Mr. FISHER. That is right, sir.
- Mr. SIMON. That built the building.
- Mr. FISHER. The company owns building and land.
- Mr. SIMON. What is the capital stock of that one?
- Mr. FISHER. \$1,000.
- Mr. SIMON. The land was sold to the building company for \$340,000, is that right?
- Mr. FISHER. That is both building companies. Not the building company, sir. To the owning companies.
- Mr. SIMON. To the section 608 sponsor?
- Mr. FISHER. That is right.
- Mr. SIMON. The section 608 sponsor paid \$340,000 for the land, treating the two corporations as one project?
- Mr. FISHER. That is right.
- Mr. SIMON. The land that cost you \$130,000 in 1939?
- Mr. FISHER. The figure is right. I just want to see the time. I believe it was 1940.
- Mr. SIMON. At any rate, it cost you \$130,000?
- Mr. FISHER. That is right, sir.
- Mr. SIMON. The mortgage was how much?
- Mr. FISHER. The mortgage on the FHA mortgage, insured mortgage?
- Mr. SIMON. Right.
- Mr. FISHER. \$1,207,200, per corporation.
- Mr. SIMON. \$2,414,400 for the both of them?
- Mr. FISHER. That is right.
- Mr. SIMON. Was there a premium?
- Mr. FISHER. There was a premium, 4 percent.
- Mr. SIMON. How much did you actually get on the premium?
- Mr. FISHER. Three and a half percent of it, which would be \$85,000 net to us.
- Mr. SIMON. About \$85,000. So that the total proceeds of the mortgage were \$2,500,000?
- Mr. FISHER. That is right.
- Mr. SIMON. Who built the building?
- Mr. FISHER. The same corporation, I. J. B. Realty Corp.
- Mr. SIMON. That is you and your brothers own the stock in that?
- Mr. FISHER. That is right.
- Mr. SIMON. What was the actual cost of constructing the building?
- Mr. FISHER. \$1,160,000—per building this is—\$1,160,657.53.
- Mr. SIMON. Is that \$2,320,000 for both of them?
- Mr. FISHER. About that; \$2,321,000.
- Mr. SIMON. Does that include interest and carrying charges?
- Mr. FISHER. No, sir; it does not.
- Mr. SIMON. What does that amount to?
- Mr. FISHER. About \$85,000 for both.
- Mr. SIMON. For both?
- Mr. FISHER. That is right.

Mr. SIMON. So the mortgage proceeds exceeded the total costs by approximately \$95,000, excluding the \$210,000 profit on the land?

Mr. FISHER. That is right. That is correct.

Mr. SIMON. If you include the entire transaction there is a \$305,000 excess of total costs over total receipts?

Mr. FISHER. Well, yes; that is right.

Mr. SIMON. Those are the only section 608's as I understand that you have, is that right?

Mr. FISHER. That is right.

Senator BUSH. Are there any questions?

(No response.)

Senator BUSH. Thank you very much for your cooperation.

Mr. Julius Guterman, will you raise your right hand please? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

### TESTIMONY OF JULIUS GUTERMAN, GREAT NECK OAKS, GREAT NECK, LONG ISLAND, N. Y.

Mr. GUTERMAN. I do.

Senator BUSH. Would you give your correct name and address to the clerk, please?

Mr. GUTERMAN. Julius Guterman, No. 2 East Mill Drive, Great Neck, Long Island.

Senator BUSH. Mr. Simon.

Mr. SIMON. Mr. Guterman, did you build Great Neck Oaks?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. There are three corporations there, are there?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. What is the name of the corporation that received the section 608 commitment from FHA?

Mr. GUTERMAN. There are three corporations. It is Great Neck Oaks No. 2, Great Oaks No. 3, and No. 4.

Mr. SIMON. Who are the stockholders of each of those corporations?

Mr. GUTERMAN. Julius Guterman, Samuel Guterman, and Joseph Mascioli.

Mr. SIMON. Each of you owns a third of the stock?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. The stock in each company was \$10,000?

Mr. GUTERMAN. That is right.

Mr. SIMON. Where is the project located?

Mr. GUTERMAN. It is located in Great Neck.

Mr. SIMON. What streets?

Mr. GUTERMAN. East Mill Drive and Cutter Mill road, Great Neck.

Mr. SIMON. How large is the project in units?

Mr. GUTERMAN. 652 apartments.

Mr. SIMON. What was the amount of the FHA mortgage?

Mr. GUTERMAN. Would you want me to give you, Mr. Simon, each corporation, or under three as a whole?

Mr. SIMON. The three of them.

Mr. GUTERMAN. As one?

Mr. SIMON. Yes.

Mr. GUTERMAN. The 3 as 1 is \$5,553,900.

Mr. SIMON. Was there a premium on the mortgage?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. What was the amount of the premium?

Mr. GUTERMAN. We received net \$55,539.

Mr. SIMON. Who built the building?

Mr. GUTERMAN. The Great Neck Oaks Corp.

Mr. SIMON. Is that a separate corporation from these?

Mr. GUTERMAN. No. That is the sponsor corporation.

Mr. SIMON. Each of these three corporations was its own contractor?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. What was the actual cost of construction of the three buildings?

Mr. GUTERMAN. \$4,620,512.

Mr. SIMON. Does that include interest and carrying charges?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. That includes all costs?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. This is built on a leasehold?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. So the \$4,620,000 is interest and everything you had to pay to get the building built?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. And the total mortgage proceeds were \$5,608,900?

Mr. GUTERMAN. No—with the premium, yes, sir.

Mr. SIMON. Including the premiums?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. Roughly, \$982,000 difference between the cost and the mortgage proceeds, is that right?

Mr. GUTERMAN. Yes.

Mr. SIMON. \$982,000. The cost of the property exceeded mortgage by \$982,000?

Mr. GUTERMAN. Approximately that.

Mr. SIMON. That was 20 percent of the mortgage?

Mr. GUTERMAN. I assume so, roughly.

Mr. SIMON. And, again, this is a case where the actual costs were 30 percent less than the estimated costs?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. Now, the land on which these three buildings are built is owned by whom?

Mr. GUTERMAN. Julius Guterman, Samuel Guterman and Joseph Mascioli.

Mr. SIMON. The same three people?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. How much did you pay for the land?

Mr. GUTERMAN. \$350,000.

Mr. SIMON. When did you buy it?

Mr. GUTERMAN. In 1947, I think. It is around 1947.

Mr. SIMON. Wasn't it 1948?

Mr. GUTERMAN. It could be.

Mr. SIMON. As a matter of fact, didn't your brother Samuel buy it first?

Mr. GUTERMAN. Yes. He bought it in 1948 and we bought it from him—he bought it in 1947 rather, and we bought it from him in 1948.

Mr. SIMON. And he paid \$300,000 for it?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. And he sold it to the 3 of you for \$350,000?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. So he picked up \$33,000 when you and Mascioli came into the picture?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. What did FHA give as a value of the land?

Mr. GUTERMAN. I think the valuation is \$856,000 on the three projects.

Mr. SIMON. That is the land that you paid \$350,000 for, FHA valued at \$856,000?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. After you got the FHA valuation, were you able to get a mortgage on the land?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. Was that mortgage \$770,400?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. So that you have \$420,000 mortgage proceeds on the land in excess of what it cost you?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. And that land is leased for 99 years to the section 608 building corporation?

Mr. GUTERMAN. Yes, sir.

Mr. SIMON. When was this building built?

Mr. GUTERMAN. It is October 1949, was the date of the closing with the FHA, and was completed in 1951—May 1951.

Mr. SIMON. My information on the land was that your brother bought it in 1948, and he sold it to you and Mascioli in 1949. Is that wrong?

Mr. GUTERMAN. Well, it could be that title we took in that time, but prior to that he had already signed a contract probably a year or so before us.

Mr. SIMON. There wasn't very much difference in time between the time you bought it for \$350,000, and the time the FHA valued it at \$856,000, was there?

Mr. GUTERMAN. I think it wasn't much time.

Mr. SIMON. Thank you very much.

The total there, that the excess-mortgage proceeds over cost on the land and building, is \$1,402,000, is that right?

Mr. GUTERMAN. I guess so, if that is what it says.

Mr. SIMON. Thank you.

Senator BUSH. Thank you, Mr. Guterma. That is all.

Mr. Morton Pickman. Mr. Pickman, will you raise your right hand, please?

Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MORTON PICKMAN, ARROWBROOK GARDENS,  
KEW GARDENS HILLS, LONG ISLAND, N. Y.

Mr. PICKMAN. I do.

Senator BUSH. Please give your name and correct address to the reporter.

Mr. PICKMAN. Morton Pickman, 2057-07 Hillside Avenue, Hollis, Queens, N. Y.

Mr. SIMON. You say you live in Hollis?

Mr. PICKMAN. No, that is our office address.

Mr. SIMON. Hollis, Long Island, N. Y.

Mr. PICKMAN. Yes, sir.

Mr. SIMON. Did you build Arrowbrook Gardens?

Mr. PICKMAN. Yes, we did.

Mr. SIMON. Where is the project located?

Mr. PICKMAN. Well, it is located in Kew Gardens Hills. It is bounded by 77th Avenue, Park Drive East, and 136th Street.

Mr. SIMON. That is in Long Island?

Mr. PICKMAN. Yes, that is in Queens County.

Mr. SIMON. How many units are there? How many apartments in the project?

Mr. PICKMAN. 320 apartments plus 6 professionals.

Mr. SIMON. And seven garages?

Mr. PICKMAN. 79 garages.

Mr. SIMON. Is Arrowbrook Corp., the corporation that built the project and got the section 608 commitment?

Mr. PICKMAN. That is right.

Mr. SIMON. Who are the stockholders of Arrowbrook Corp.?

Mr. PICKMAN. Myself and members of my family.

Mr. SIMON. What is the capital stock of Arrowbrook Corp.?

Mr. PICKMAN. \$2,000.

Mr. SIMON. What was the amount of the FHA mortgage?

Mr. PICKMAN. \$2,675,000.

Mr. SIMON. What was the cost of the land?

Mr. PICKMAN. Cost of the land was \$327,745.65.

Mr. SIMON. And the land is included in the sponsoring corporation?

Mr. PICKMAN. That is correct.

Mr. SIMON. Did the sponsoring corporation itself build the buildings?

Mr. PICKMAN. They did.

Mr. SIMON. What was the cost?

Mr. PICKMAN. The cost was \$2,491,189.63.

Mr. SIMON. Haven't you included in that figure, Mr. Pickman, the land cost?

Mr. PICKMAN. Yes.

Mr. SIMON. The \$2,491,189.63 includes the \$327,000 land cost?

Mr. PICKMAN. That is right.

Mr. SIMON. It also includes interest and carrying charges?

Mr. PICKMAN. Yes, sir.

Mr. SIMON. So that is the total amount of money that you paid for constructing the building, including the land and everything else?

Mr. PICKMAN. That is correct.

Mr. SIMON. And the premium on the mortgage was how much?

Mr. PICKMAN. \$80,250.

Mr. SIMON. So that the actual costs were \$264,000 less than the total proceeds of the mortgage?

Mr. PICKMAN. That is right.

Mr. SIMON. Did you also build Briarwood Gardens, is it?

Mr. PICKMAN. Well, the name of the corporation is the Briarwood Building Corp.

Mr. SIMON. What is the name of the building?

Mr. PICKMAN. I believe it is Briarwood Towers.

Mr. SIMON. That is also in Queens County?

Mr. PICKMAN. Queens County; yes.

Mr. SIMON. Where is it located?

Mr. PICKMAN. That is located at 85th Drive and 143d Street in Briarwood.

Mr. SIMON. That was built in 1951, wasn't it?

Mr. PICKMAN. I would say 1950 and 1951.

Mr. SIMON. When was Arrowbrook built?

Mr. PICKMAN. That was built, I believe, in 1949 and 1950.

Mr. SIMONS. Now, Briarwood Towers is built on leased land; is that right?

Mr. PICKMAN. That is correct.

Mr. SIMON. What was the amount of the mortgage?

Mr. PICKMAN. \$4,272,000.

Mr. SIMON. What was the premium?

Mr. PICKMAN. The premium was—I believe it was \$172,000.

Mr. SIMON. \$172,240? Is that right?

Mr. PICKMAN. Yes; it is.

Mr. SIMON. Who built the building?

Mr. PICKMAN. The Briarwood Building Corp.

Mr. SIMON. The sponsor was the builder?

Mr. PICKMAN. That is correct.

Mr. SIMON. What was its actual cost? Was it \$4,080,097.95?

Mr. PICKMAN. That is correct.

Mr. SIMON. The total cost of everything owned by this building, including financing charges, was \$364,142 less than the proceeds of the mortgage?

Mr. PICKMAN. That is correct.

Mr. SIMON. Now, how much did you pay for the land?

Mr. PICKMAN. The land was purchased by me in 1943 and 1944, and was assembled there and as closely as I have been able to check, there is one contract I haven't been able to find, but approximating the cost of that contract that I haven't been able to find it comes out to eighty-some-odd thousand dollars.

Mr. SIMON. If we said \$85,000, would that be conservative?

Mr. PICKMAN. That would be about correct.

Mr. SIMON. FHA valued the land at \$304,000?

Mr. PICKMAN. That is right.

Mr. SIMON. And you have put a mortgage on the land of \$200,000?

Mr. PICKMAN. I did that, yes, about a year ago.

Mr. SIMON. And the property is leased for 99 years at \$12,000—\$12,160 a year rent to the building corporation?

Mr. PICKMAN. That is correct.

Mr. SIMON. So that in addition to the \$364,000 by which the cost of the building was less than the mortgage on the building, is \$115,000

by which the proceeds of the mortgage on the land exceeds the cost of the land; is that right?

Mr. PICKMAN. Yes. The purchase price.

Mr. SIMON. Did you also build Cunningham Park Apartments?

Mr. PICKMAN. We did; yes.

Mr. SIMON. There are four corporations there; are there?

Mr. PICKMAN. That is correct.

Mr. SIMON. And is the capital stock in each of them \$1,800.

Mr. PICKMAN. That is correct.

Mr. SIMON. And the stock is all owned by you and your family?

Mr. PICKMAN. That is right.

Mr. SIMON. Are those companies Hollis Crest Apartments, Inc., Parkway Crest Apartments, Inc., Whitehall Crest Apartments, Inc., and Foothill Terrace Apartments, Inc.?

Mr. PICKMAN. That is correct. Yes, sir.

Mr. SIMON. They were built in 1950 and 1951?

Mr. PICKMAN. That is right.

Mr. SIMON. What was the total mortgage on the four projects?

Mr. PICKMAN. I haven't totaled them. I can approximate.

Mr. SIMON. Is Hollis, \$1,560,000?

Mr. PICKMAN. That is right.

Mr. SIMON. Parkway, \$3,194,400?

Mr. PICKMAN. Yes.

Mr. SIMON. Whitehall, \$2,480,100?

Mr. PICKMAN. That is correct.

Mr. SIMON. And Foothill, \$1,667,200?

Mr. PICKMAN. That is correct.

Mr. SIMON. The total I am advised is \$8,901,700. Where are these projects located?

Mr. PICKMAN. They are located in Queens County. They are bounded by Grand Central Parkway and Francis Lewis Boulevard.

Mr. SIMON. And are they built as one project?

Mr. PICKMAN. Well, they were built actually as four projects.

Mr. SIMON. Are they contiguous to each other?

Mr. PICKMAN. Yes, they are.

Mr. SIMON. Do you have the construction costs—incidentally, this is built on leasehold land, isn't it?

Mr. PICKMAN. That is correct.

Mr. SIMON. You owned the land and you leased it for 99 years to these corporations?

Mr. PICKMAN. That is right.

Mr. SIMON. What are the total construction costs?

Mr. PICKMAN. I have them here, according to corporations.

Mr. SIMON. All right. Is Hollis \$1,546,761?

Mr. PICKMAN. That is correct.

Mr. SIMON. Is Parkway \$3,148,244?

Mr. PICKMAN. That is correct.

Mr. SIMON. Is Whitehall \$2,427,433?

Mr. PICKMAN. That is correct.

Mr. SIMON. Is Foothill \$1,639,733?

Mr. PICKMAN. That is correct.

Mr. SIMON. I am advised that the total of the four costs is \$8,762,073.

What were the premiums on the mortgages?

Mr. PICKMAN. The premium on the Whitehall Crest Apartment was \$25,884.31. The premium on the Foothill Terrace Apartments was \$15,786, and the premium on the Whitehall Crest Apartments, Inc.—

Mr. SIMON. You have given us Whitehall.

Mr. PICKMAN. There is—

Mr. SIMON. Is Parkway \$34,829?

Mr. PICKMAN. Yes.

Mr. SIMON. Is Hollis \$14,450?

Mr. PICKMAN. Yes.

Mr. SIMON. Total premiums, then, are \$90,950, and the mortgage proceeds exceeded the total cost by \$230,477; is that right?

Mr. PICKMAN. That is correct.

Mr. SIMON. Now, how much did you pay for the land?

Mr. PICKMAN. The land was purchased in 1945 and 1946 for \$196,500.

Mr. SIMON. What did FHA value the land at?

Mr. PICKMAN. I haven't totaled it. I know it was over a million dollars.

Mr. SIMON. \$1,075,000?

Mr. PICKMAN. I presume it is correct.

Mr. SIMON. That is a little more than five times what you paid for it?

Mr. PICKMAN. That is correct.

Mr. SIMON. There is no mortgage on the land?

Mr. PICKMAN. No.

Mr. SIMON. You get an annual income of \$43,000 a year from the land for 99 years; is that right?

Mr. PICKMAN. That is correct.

Mr. SIMON. And, of course, the building corporation has to pay the real-estate taxes and everything else?

Mr. PICKMAN. That is correct.

Mr. SIMON. So that your \$43,000 annual income is net?

Mr. PICKMAN. That is correct.

Mr. SIMON. Thank you, sir.

Senator BUSH. Any questions? Thank you very much.

Mr. Haskell Hess. Mr. Hess, will you raise your right hand, please? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF HASKELL HESS, ELMWOOD APARTMENTS, BAYSIDE, LONG ISLAND, N. Y., ETC.

Mr. HESS. I do.

Senator BUSH. Will you give your name and correct address to the clerk, please?

Mr. HESS. My name is Haskell Hess, 163-18 Jamaica Avenue, Jamaica, N. Y.

Mr. SIMON. Did you build Elmwood Apartments, Mr. Hess?

Mr. HESS. Yes, sir.

Mr. SIMON. Where is Elmwood Apartments located?

Mr. HESS. They are on 42d Avenue, 202d Street, and on 43d Avenue, 203d to 205th Streets in Bayside. That is Queens County.

Mr. SIMON. There are five corporations there, are there?

- Mr. HESS. Yes, sir.
- Mr. SIMON. Is the capital stock of each corporation \$400?
- Mr. HESS. Yes, sir.
- Mr. SIMON. A total of \$2,000 for the five corporations?
- Mr. HESS. Yes, sir.
- Mr. SIMON. And you and Emilio Olivieri—is that right?
- Mr. HESS. That is right.
- Mr. SIMON. You and he each own half the stock in the company?
- Mr. HESS. That is right.
- Mr. SIMON. What is the mortgage on the five properties?
- Mr. HESS. There were five mortgages which totaled \$1,115,000.
- Mr. SIMON. Is this built as one project?
- Mr. HESS. Yes, sir.
- Mr. SIMON. Five corporations but the properties are built as one project?
- Mr. HESS. Yes, sir.
- Mr. SIMON. What was the cost of the land?
- Mr. HESS. The cost of the land was \$73,000.
- Mr. SIMON. Did the sponsor corporation construct the buildings?
- Mr. HESS. Yes, sir.
- Mr. SIMON. What was the actual cost of the sponsoring corporation of building these buildings?
- Mr. HESS. \$1,055,953.29.
- Mr. SIMON. Was that a mortgage premium?
- Mr. HESS. Yes, sir, there was.
- Mr. SIMON. What was the amount of that?
- Mr. HESS. I don't have the exact amount. We don't have the records. The property was sold, but the best of my recollection was that it was about 4 percent.
- Mr. SIMON. Four percent would be \$44,600?
- Mr. HESS. Yes, sir, approximately that, to the best I can remember.
- Mr. SIMON. As best as you can remember, the excess of mortgage proceeds over cost is about \$103,000; is that right?
- Mr. HESS. Yes, sir, that would include the premium.
- Mr. SIMON. That is right.
- Mr. HESS. Yes, sir.
- Mr. SIMON. And that was just about 10 percent, or 9 percent, of the mortgage amount?
- Mr. HESS. Yes, sir.
- Mr. SIMON. FHA had estimated the cost of the property at about \$127,000 in excess of the amount of the mortgage; is that right?
- Mr. HESS. Yes, sir.
- Mr. SIMON. And did you, by a bookkeeping entry, write up the value of the property on your books to the amount of the FHA estimate?
- Mr. HESS. Yes, sir.
- Mr. SIMON. And you then distributed to the stockholders, that is, yourself and Mr. Olivieri, \$123,000; is that right?
- Mr. HESS. That is right.
- Mr. SIMON. That was distributed substantially on completion of the building?
- Mr. HESS. Yes, sir.
- Mr. SIMON. Now, the construction costs that you have given us also included, did they not, a salary to you during construction?

Mr. HESS. Yes, sir.

Mr. SIMON. How much was that?

Mr. HESS. I don't recall the exact amount, but it was approximately \$150 per week.

Mr. SIMON. How long did it take to build the buildings?

Mr. HESS. About 12 months; perhaps a little less.

Mr. SIMON. Did you also build Palo Alto Apartments?

Mr. HESS. Yes, sir.

Mr. SIMON. And the stock in that was \$5,000?

Mr. HESS. Yes, sir.

Mr. SIMON. What was the amount of the mortgage there?

Mr. HESS. The mortgage was \$790,000.

Mr. SIMON. And was there a premium?

Mr. HESS. Yes, sir.

Mr. SIMON. What was the amount of the premium?

Mr. HESS. \$27,650.

Mr. SIMON. Who built the building?

Mr. HESS. It was built by the sponsoring corporation.

Mr. SIMON. What was the cost of the land?

Mr. HESS. \$24,137.02.

Mr. SIMON. What was the cost of construction on the building?

Mr. HESS. \$708,051.19.

Mr. SIMON. Does that include the cost of the land?

Mr. HESS. Yes, sir.

Mr. SIMON. Does that include interest and carrying charges?

Mr. HESS. Yes, sir.

Mr. SIMON. That includes everything then?

Mr. HESS. Yes, sir.

Mr. SIMON. So that the proceeds of the mortgage were \$109,000 in excess of the total cost of the land, buildings, and carrying charges; is that right?

Mr. HESS. Yes, sir; including the mortgage premium, that is correct.

Mr. SIMON. What you got when you sold the mortgage.

The excess of the mortgage proceeds over the cost were distributed in the form of a dividend to the stockholders; is that right?

Mr. HESS. Yes, sir.

Mr. SIMON. Did you also build Loudon Apartments?

Mr. HESS. Yes, sir.

Mr. SIMON. What was the capital of that company?

Mr. HESS. \$2,000.

Mr. SIMON. \$2,000?

Mr. HESS. Yes, sir.

Mr. SIMON. Where is Loudon Apartments located?

Mr. HESS. Loudon Apartments is located in Albany, N. Y., at the intersection of Northern Boulevard and Shaker Road.

Mr. SIMON. Did I ask you where Palo Alto Apartments were located?

Mr. HESS. No, sir. Palo Alto were on Hillside Avenue at 190th Street in Hollis, N. Y.

Mr. SIMON. That is—

Mr. HESS. Queens County, Long Island.

Mr. SIMON. Going to the Loudon Apartments project, what is the name of the sponsoring corporation?

- Mr. HESS. Louden Builders, Inc.
- Mr. SIMON. That is the company that has the \$2,000 capital?
- Mr. HESS. Yes, sir.
- Mr. SIMON. Did it build the building itself?
- Mr. HESS. Yes, sir.
- Mr. SIMON. What was the amount of the mortgage?
- Mr. HESS. \$2,600,000.
- Mr. SIMON. Is there a premium?
- Mr. HESS. Yes, sir.
- Mr. SIMON. How much was the premium?
- Mr. HESS. \$116,853.75.
- Mr. SIMON. Total proceeds of the mortgage then were \$2,716,000?
- Mr. HESS. Yes, sir.
- Mr. SIMON. What was the cost of construction?
- Mr. HESS. \$2,765,909.71.
- Mr. SIMON. Does that include the cost of the land?
- Mr. HESS. Yes, sir.
- Mr. SIMON. Does that include the interest and financing charges?
- Mr. HESS. Yes, sir.
- Mr. SIMON. In that case the costs were approximately \$50,000 in excess of the mortgage, is that right?
- Mr. HESS. That would be after deducting the mortgage premium.
- Mr. SIMON. The total proceeds of the mortgage were \$50,000 less than the total cost, is that right?
- Mr. HESS. Yes, sir.
- Mr. SIMON. After the property was completed, you reappraised it, and on your books increased its value by \$259,000, is that right?
- Mr. HESS. Yes, sir.
- Mr. SIMON. What was the purpose of that? You had no dividends to pay out and no money to pay dividends?
- Mr. HESS. The best I can answer is that that would be on the advice of our accountants, who do that for some accounting reason.
- Mr. SIMON. You don't know what the accounting reason was?
- Mr. HESS. Not exactly, sir, no.
- Mr. SIMON. Did you build Airline Apartments?
- Mr. HESS. No, sir, not Airline.
- Mr. SIMON. Alpine, excuse me.
- Mr. HESS. Alpine, yes, sir.
- Mr. SIMON. Where is Alpine Apartments located?
- Mr. HESS. They are on 76th Street and 34th Avenue, Jackson Heights, Queens County, N. Y.
- Mr. SIMON. What is the capital stock of that company?
- Mr. HESS. That was \$2,000.
- Mr. SIMON. When was that project built?
- Mr. HESS. 1950 and 1951.
- Mr. SIMON. That project is built on leased land?
- Mr. HESS. Yes, sir.
- Mr. SIMON. You own the land?
- Mr. HESS. Yes, sir.
- Mr. SIMON. As I gather it after you bought the land and got the FHA appraisal you were able to get a mortgage in excess of the cost of the land?
- Mr. HESS. Yes, sir.
- Mr. SIMON. What was the amount of the mortgage on the building?

Mr. HESS. \$1,815,000.

Mr. SIMON. Was there a premium?

Mr. HESS. Yes, sir.

Mr. SIMON. What was the amount of the premium?

Mr. HESS. \$72,600.

Mr. SIMON. Who built the building?

Mr. HESS. It was built by the sponsoring corporation.

Mr. SIMON. What was its cost?

Mr. HESS. \$1,644,569.16.

Mr. SIMON. Does that include interest during construction, financing charges?

Mr. HESS. Yes, sir.

Mr. SIMON. That is the total cost?

Mr. HESS. Yes, sir.

Mr. SIMON. That is \$243,000—the costs were \$243,000 less than the proceeds of the mortgage?

Mr. HESS. No, sir. I have \$170,430.84.

Mr. SIMON. The mortgage was \$1,815,000; is that right?

Mr. HESS. Yes, sir.

Mr. SIMON. The premium was \$72,000; is that right?

Mr. HESS. Yes, sir.

Mr. SIMON. Doesn't that make \$1,887,000?

Mr. HESS. Yes, sir.

Mr. SIMON. And the costs were \$1,664,000?

Mr. HESS. Yes, sir.

Mr. SIMON. Isn't the difference between \$1,887,000 and \$1,646,000 \$243,000?

Mr. HESS. Yes, sir.

Mr. SIMON. That is right, isn't it?

Mr. HESS. Yes, sir.

Mr. SIMON. The mortgage proceeds exceeded the costs by \$243,000; is that right?

Mr. HESS. May we check these figures? They are not clear to us.

Mr. SIMON. Yes, sir.

Mr. HESS. On the \$1,644,569 cost we used the mortgage premium to reduce our cost. Then we can't add it in again, so that the difference—

Mr. SIMON. Are you saying that your costs were \$72,000 in excess of \$1,644,000?

Mr. HESS. Yes, sir.

Mr. SIMON. The difference is \$1,171,000; is that right?

Mr. HESS. No; just \$170,000.

Mr. SIMON. That is because your costs were \$1,716,000 and not \$1,644,000, is that right?

Mr. HESS. That is right.

Mr. SIMON. Did you build Iriquois Apartments?

Mr. HESS. Yes, sir.

Mr. SIMON. What was the capital stock there?

Mr. HESS. \$2,000.

Mr. SIMON. Where is the project located?

Mr. HESS. That property is on 195th Street and Jamaica Avenue, in Hollis, N. Y. That is Queens County.

Mr. SIMON. Is the land included in the project?

Mr. HESS. Yes, sir.

Mr. SIMON. What was the mortgage?

Mr. HESS. The mortgage was \$800,000.

Mr. SIMON. The premium?

Mr. HESS. The premium was \$32,000.

Mr. SIMON. Who built the building?

Mr. HESS. It was built by the sponsoring corporation.

Mr. SIMON. What was the cost of construction?

Mr. HESS. \$574,919.37.

Mr. SIMON. Does that include the cost of the land?

Mr. HESS. No, sir.

Mr. SIMON. What was the cost of the land?

Mr. HESS. \$30,011.06.

Mr. SIMON. Does that include interests and carrying charges?

Mr. HESS. Yes, sir.

Mr. SIMON. The total cost of the project was \$604,000?

Mr. HESS. It is \$636,930.43.

Mr. SIMON. That is the total cost?

Mr. HESS. Yes, sir.

Mr. SIMON. Including the land, interest, carrying charges, and everything else?

Mr. HESS. Yes, sir.

Mr. SIMON. \$194,000 is the amount by which the mortgage proceeds exceeds the total cost, is that right?

Mr. HESS. Yes, sir.

Mr. SIMON. And that amounts to 25 percent of the mortgage, doesn't it?

Mr. HESS. Yes, sir.

Mr. SIMON. So in that one the actual cost was 35 percent less than the estimated cost?

Mr. HESS. Yes, sir.

Mr. SIMON. And the excess of mortgage proceeds was distributed to the stockholders?

Mr. HESS. Yes, sir.

Mr. SIMON. Did you build Jeffery Gardens?

Mr. HESS. Yes, sir.

Mr. SIMON. Where is it located?

Mr. HESS. Jeffery Gardens is on 215th Street and 39th Avenue, Bayside, New York.

Mr. SIMON. Is that in Queens?

Mr. HESS. Queens County, yes, sir.

Mr. SIMON. What is the amount of the capital stock?

Mr. HESS. Jeffery Gardens Apartments comprised two corporations. That was Jeffery Gardens Apartments, Inc., and another corporation which was Jeffery Gardens Apartments, Section 2, Inc.

Mr. SIMON. Was the capital stock \$500 in each?

Mr. HESS. It was \$500 in Jeffery Gardens Apartments, and \$1,500 in Jeffery, Section 2.

Mr. SIMON. The total of \$2,000 capital stock in the 2 corporations?

Mr. HESS. Yes, sir.

Mr. SIMON. Were both of the corporations buildings built as one project?

Mr. HESS. Well, more or less. They were handled separately, although they were adjacent to each other.

Mr. SIMON. What is the amount of the mortgage?

Mr. HESS. \$1,110,000.

Mr. SIMON. That is just in Jeffery Gardens Apartments; isn't it?

Mr. HESS. Yes, sir.

Mr. SIMON. What is the mortgage in section 2?

Mr. HESS. \$1,168,700.

Mr. SIMON. \$2,278,000, the total mortgage; is that right?

Mr. HESS. I haven't totaled these. I have them separate.

Mr. SIMON. What is the premium?

Mr. HESS. On the first one, the premium was \$38,850.

Mr. SIMON. The second one?

Mr. HESS. On section 2 the premium was \$40,904.50.

Mr. SIMON. Who built the buildings?

Mr. HESS. The sponsoring corporations.

Mr. SIMON. What was the cost of construction of the first building?

Mr. HESS. \$970,034.53.

Mr. SIMON. Does that include the cost of the land?

Mr. HESS. Yes, sir.

Mr. SIMON. Does that include interest and carrying charges?

Mr. HESS. Yes, sir.

Mr. SIMON. That is the total cost of everything?

Mr. HESS. Yes, sir.

Mr. SIMON. Is that reduced by the amount of the premium?

Mr. HESS. No, sir.

Mr. SIMON. What is the cost of the second?

Mr. HESS. That was \$1,050,020.87.

Mr. SIMON. Does that include the cost of the land?

Mr. HESS. Yes, sir.

Mr. SIMON. Does that include interest and carrying charges?

Mr. HESS. Yes, sir.

Mr. SIMON. Is that reduced by the amount of the premium?

Mr. HESS. No, sir.

Mr. SIMON. If my computation is right, the proceeds of the mortgage exceeded the total cost by \$337,000; is that right?

Mr. HESS. That is right.

Mr. SIMON. Thank you, sir.

Senator BUSH. Thank you very much.

Mr. B. Weinberg. Mr. Weinberg, will you raise your right hand, please?

Do you solemnly swear the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF BERNARD WEINBERG, BARRINGTON MANOR, BARRINGTON, N. J., ETC.

Mr. WEINBERG. I do.

May I say we have an associate of mine, Mr. Goodwin, if you want to put him under oath, or if you want to ask me questions I may not be qualified to answer.

Senator BUSH. If we find it necessary to put him under oath later, we will do so. We don't anticipate that.

Mr. WEINBERG. May I also thank you, Mr. Simon, and gentlemen, for permitting me to postpone my hearing from Monday until today.

Senator BUSH. You are quite welcome.

If you will kindly give your name and address to the clerk.

Mr. WEINBERG. Bernard Weinberg, 2319 North 51st Street, Philadelphia, Pa.

Mr. SIMON. Is that Bernard Weinberg, 2219—

Mr. WEINBERG. 2319.

Mr. SIMON. 2319—

Mr. WEINBERG. North 51st Street, Philadelphia.

Mr. SIMON. Did you build Barrington Manor Apartments?

Mr. WEINBERG. That is right.

Mr. SIMON. When was the project built, Mr. Weinberg?

Mr. WEINBERG. We started in the fall of 1949 and we finished it in the fall of 1950.

Mr. SIMON. What was the name of the corporation which built the project?

Mr. WEINBERG. Barrington Manor Construction Corp.

Mr. SIMON. Was it also the section 608 sponsor?

Mr. WEINBERG. That is right.

Mr. SIMON. What was the capital stock of Barrington Manor Construction Co.?

Mr. WEINBERG. The capital stock was \$2,000.

Mr. SIMON. What was the amount of the FHA mortgage?

Mr. WEINBERG. The FHA mortgage was \$2,262,000.

Mr. SIMON. Was there a premium?

Mr. WEINBERG. There was a premium, of which we received a net amount of \$16,000, I believe.

Mr. SIMON. The premium—

Mr. WEINBERG. I am not quite sure of that.

Mr. SIMON. The premium was close to \$60,000.

Mr. WEINBERG. It was \$61,000, but \$47,000 went to the superintendent for completion early.

Senator BUSH. Went to what?

Mr. WEINBERG. Went to the superintendents on the job for early completion of the project.

Mr. SIMON. Who were the superintendents?

Mr. WEINBERG. A Philip and Howard Green.

Mr. SIMON. You paid them \$41,000 of the bonus money for completing the job early?

Mr. WEINBERG. That is right.

Mr. SIMON. You got \$16,000 of the bonus money?

Mr. WEINBERG. That is right.

Mr. SIMON. What was the cost of constructing the building?

Mr. WEINBERG. The cost of construction was \$1,840,033.

Mr. SIMON. Does that include the cost of the land?

Mr. WEINBERG. That includes all costs, land, the interest, the fees, and whatever else.

Mr. SIMON. Carrying charges and everything else?

Mr. WEINBERG. All costs are in there.

Mr. SIMON. So that the mortgage proceeds were \$438,000 in excess of the cost of the land; is that right?

Mr. WEINBERG. In excess of the cost of land—

Mr. SIMON. The mortgage proceeds were \$438,000 in excess of the cost of the land, buildings, and carrying charges and financing charges?

Mr. WEINBERG. Including the premium of the mortgage, and the proceeds that we received.

Mr. SIMON. Proceeds of the mortgage?

Mr. WEINBERG. That is right.

Mr. SIMON. That is approximately 20 percent of the mortgage; is that right?

Mr. WEINBERG. Approximately; yes.

Mr. SIMON. Therefore, the actual costs were some 30 percent less than the FHA Commissioner's estimated cost?

Mr. WEINBERG. That is right.

Mr. SIMON. Did you also build Pleasantville Apartments?

Mr. WEINBERG. That is right; we did.

Mr. SIMON. What was the name of the sponsoring corporation?

Mr. WEINBERG. Pleasantville Manor Apartments.

Mr. SIMON. What was the capital stock of that?

Mr. WEINBERG. \$2,000.

Mr. SIMON. What was the amount of the FHA mortgage?

Mr. WEINBERG. \$1,680,000.

Mr. SIMON. What was the premium?

Mr. WEINBERG. The premium didn't come in there until later, and that went into the Parkwoods Corp. which was used to offset the operating deficit in the first years.

Mr. SIMON. How much was the premium?

Mr. WEINBERG. I think it was \$37,000 or \$40,000. I am not quite sure of that, Mr. Simon.

Mr. SIMON. Is \$37,000 a fair statement?

Mr. WEINBERG. I would say around there; \$37,000 or \$40,000.

Mr. SIMON. You earned the premium when you sold the mortgage?

Mr. WEINBERG. No; we earned the premium because we didn't go into default.

Mr. SIMON. What was your contract when you sold the mortgage with the man who bought the mortgage?

Mr. WEINBERG. I believe it was 1 percent at the end of construction, when we turned it final and a half percent every year or so until we paid off the \$37,000.

Mr. SIMON. Did you have to do anything to earn that half a percent?

Mr. WEINBERG. We had to operate the apartments so they wouldn't go in default.

Mr. SIMON. One percent is all they paid you at the time they bought the mortgage?

Mr. WEINBERG. I believe that is correct. I beg your pardon, Mr. Godwin reminds me they wouldn't pay until it was 80 or 87 percent occupied, which did not occur at the time we went to our final closing.

Mr. SIMON. The total mortgage proceeds then was the amount of the mortgage of \$1,671,000, is that right?

Mr. WEINBERG. \$1,680,000.

Mr. SIMON. And the sponsoring corporation built the building itself?

Mr. WEINBERG. That is right. No, beg your pardon. It was Pleasantville Construction Corp. which was the sponsors also, but another corporation.

Mr. SIMON. Sorry?

Mr. WEINBERG. The Pleasantville Construction Corp. built the buildings which were the same as the sponsor corporation.

Mr. SIMON. You mean the same stockholders?

Mr. WEINBERG. Yes.

Mr. SIMON. What was the actual cost to the construction company of building the building?

Mr. WEINBERG. \$1,435,959.99.

Mr. SIMON. Does that include the cost of the land?

Mr. WEINBERG. That includes the cost of the land and all other costs involved.

Mr. SIMON. Including financing charges, carrying charges, and everything else?

Mr. WEINBERG. That is right.

Mr. SIMON. The mortgage proceeds, then, without a premium in this case, were \$256,000 in excess of the costs, all the costs?

Mr. WEINBERG. I think there is some error there. Our figures are \$227,000.

Mr. SIMON. Did you tell me the costs were \$1,425,000?

Mr. WEINBERG. \$1,425,959.

Mr. SIMON. Did you tell me the mortgage was \$1,891,000?

Mr. WEINBERG. \$1,680,000.

Mr. SIMON. That would be \$255,000, wouldn't it?

Mr. WEINBERG. We have an error. Let's check our figures.

Mr. GOODWIN. We made an error.

Mr. SIMON. You did or we did?

Mr. WEINBERG. We did. If we may have a moment to check this. We have an error. Total cost is \$1,452,000.

Mr. SIMON. You told us in Washington, \$1,421,000, which is substantially what you said earlier.

Mr. GOODWIN. For Pleasantville?

Mr. WEINBERG. Remember, Mr. Simon, we discussed that and you looked at a lighter statement which had some of the amortization taken off of that.

Mr. SIMON. I don't know what it cost, but I want to call your attention to these figures.

Mr. WEINBERG. They are our cost figures as we have them now.

Mr. SIMON. This is the third figure you have given us. I want to make sure it is the right figure.

Mr. WEINBERG. That is the figure the accountant supplies for it. I am taking his word and we are paying taxes on that basis. One million four hundred and fifty-two thousand dollars is what our accountant states. That is cost of construction.

Mr. SIMON. That makes mortgage proceeds \$228,000 in excess of your actual cost.

Mr. WEINBERG. \$228,000 would be right.

Mr. SIMON. Were you one of the builders of Monroe Park Apartments?

Mr. WEINBERG. No. I was a stockholder in that corporation.

Mr. SIMON. Well, what was the name of the corporation that built Monroe Park Apartments?

Mr. WEINBERG. I am not quite sure whether it is Housing Engineering or whether it was Monroe Park Construction Corp.

Mr. SIMON. Was one of them the sponsor and the other the builder?

Mr. WEINBERG. That is right.

Mr. SIMON. Did you own 24 percent of the stock of each?

Mr. WEINBERG. No. I owned 31 percent of the stock of the sponsoring corporation, the apartments corporation.

Mr. SIMON. How much of the stock in the building corporation did you own?

Mr. WEINBERG. I couldn't answer that right now.

Mr. SIMON. Was it approximately the same amount?

Mr. WEINBERG. I don't know if I owned any stock in the construction, Mr. Simon. I explained to you in Washington the difficulties. I believe—

Mr. SIMON. I was hoping between then and now you would find out.

Mr. WEINBERG. Frankly speaking, I was hoping I could get that information, but they tell me that I appeared before you in executive session and you probably had much more information than I supplied and I would be very much indebted to you if you would get the information.

Mr. SIMON. The mortgage was \$5 million, which was the maximum amount the statute permitted; is that right?

Mr. WEINBERG. I believe the mortgage was in excess of \$5 million. It was broken up into three corporations. As I told you in Washington, Mr. Simon—

Mr. SIMON. What is the total amount of the mortgage?

Mr. WEINBERG. About five and a half million, I believe.

Mr. SIMON. How much did it cost to build the building?

Mr. WEINBERG. I can't give you the information because I don't know.

Mr. SIMON. You mean to say you owned 30 percent of the stock and you don't know how much it cost to build the buildings?

Mr. WEINBERG. I told you in Washington, strange as it seems, I don't know because of the difficulties we had in our arrangements with my former associates.

Mr. SIMON. Won't they tell you how much the building cost if you asked them?

Mr. WEINBERG. I asked them last Friday when I received your subpoena what those costs were and they refused to give them to me on the phone.

Mr. SIMON. When was this building built?

Mr. WEINBERG. I think 1951.

Mr. SIMON. About 3 years ago?

Mr. WEINBERG. I would think so; yes.

Mr. SIMON. How much was the capital stock of this company?

Mr. WEINBERG. Well, it cost me \$331 for 31 percent, so I imagine on the basis of that it would be somewhere around, about \$2,000.

Mr. SIMON. Closer to \$1,000, wouldn't it?

Mr. WEINBERG. Yes; you are right.

Mr. SIMON. Closer to a thousand. Now, if they built this building for four and a half million dollars, you have a third of a million dollars coming?

Mr. WEINBERG. Yes; but I don't have it.

Mr. SIMON. You don't know how much it cost to build the building?

Mr. WEINBERG. No; I don't.

Mr. SIMON. Have you ever filed a lawsuit to find out?

Mr. WEINBERG. If it wasn't a family arrangement, I would.

Mr. SIMON. Three years have gone by and you own almost a third of the company, and they won't tell you what it cost and you don't know?

Mr. WEINBERG. That is correct. That seems strange but it is the truth. And as I say to you, Mr. Simon, you probably have more information on this than I do.

Mr. SIMON. What have you done, Mr. Weinberg, in the 3 years to find out?

Mr. WEINBERG. Just asked them on many occasions and received the same answer.

Mr. SIMON. Have you ever taken it to a lawyer to see whether you could sue them to get it?

Mr. WEINBERG. And I wouldn't.

Mr. SIMON. Even though you got a half million dollars coming here?

Mr. WEINBERG. I don't know what I have coming to me but I wouldn't sue them.

Mr. SIMON. You wouldn't?

Mr. WEINBERG. No.

Mr. SIMON. And besides talking to them and asking them for it you have done nothing to find out how much, if anything, you have got coming here?

Mr. WEINBERG. That is correct.

Senator BEALL. Why wouldn't you protect your interest?

Mr. WEINBERG. There is a family relationship there, you see, and I don't disturb that, not in courts.

Mr. SIMON. The other owners are Herman and Ben Cohen; is that right?

Mr. WEINBERG. That is right.

Mr. SIMON. Are they relatives of yours?

Mr. WEINBERG. Mr. Herman Cohen is married to my wife's sister's husband's sister. Can you follow that?

Mr. SIMON. No, sir.

Mr. WEINBERG. I will try to be more explicit.

Mr. SIMON. Can we say he is distantly related by marriage?

Mr. WEINBERG. I would say he is not distantly related at all. His wife is the sister of my sister-in-law. Sister of my brother-in-law, I beg your pardon. You have me a little confused, too.

Senator BEALL. Who decided to build this apartment, you or your associates?

Mr. WEINBERG. We did all together.

Senator BEALL. You decided all together to go into it?

Mr. WEINBERG. We had a previous apartment and they introduced me into the building of apartment projects.

Senator BEALL. They introduced you?

Mr. WEINBERG. That is right. During the course of building the first project we ran across this project and went from one project into the other.

Senator BEALL. Were you always in the building business?

Mr. WEINBERG. No. I was associated with the building industry for 15 or 18 years, but actively engaged in the past 6 years.

Mr. SIMON. You also have an interest in Penn Manor Apartments?

Mr. WEINBERG. No. I did. I sold it out in 1950.

Mr. SIMON. What was the amount of the mortgage there?

Mr. WEINBERG. I believe it was about 2¼ million.

Mr. SIMON. About 2¼ million?

Mr. WEINBERG. I believe it was.

Mr. SIMON. You and the same two Cohens owned that stock in that company, didn't you?

Mr. WEINBERG. Originally; yes.

Mr. SIMON. What was the capital stock there?

Mr. WEINBERG. I believe the capital stock there also was either a thousand or \$2,000.

Mr. SIMON. So you said; how much did you own?

Mr. WEINBERG. I owned 32 percent, I believe, or 33 percent.

Mr. SIMON. You said either \$320 or \$640 for your stock; is that right?

Mr. WEINBERG. Either one of those. That is right.

Mr. SIMON. Some time or another they paid you \$125,000 for your stock; is that right?

Mr. WEINBERG. That is right.

Mr. SIMON. But you don't know how much they mortgaged out; is that right?

Mr. WEINBERG. We completed that job together, but I believe the mortgaging, the construction cost, or the mortgage exceeded construction cost by about \$125,000 or \$150,000, somewhere in that, but I haven't the entire file. It was turned over to them when I sold it out to them.

Mr. SIMON. All you know is for your stock they paid you \$125,000; is that right?

Mr. WEINBERG. That is right. Of course, I may say this: that I also had to advance them \$150,000 cash.

Mr. SIMON. You got that paid back out of the mortgage, didn't you?

Mr. WEINBERG. That is correct, plus signing the notes in the bank for it.

Mr. SIMON. You got all of that reimbursed out of the mortgage proceeds?

Mr. WEINBERG. That is right.

Mr. SIMON. Where is Penn Manor Apartments located?

Mr. WEINBERG. Pennsauken, N. J. That is right near Camden.

Mr. SIMON. Is that the name of the city, Pennsauken?

Mr. WEINBERG. Pennsauken Township, N. J.

Mr. SIMON. That is a township in New Jersey near Camden?

Mr. WEINBERG. That is right.

Mr. SIMON. But it is in New Jersey?

Mr. WEINBERG. That is right.

Mr. SIMON. How big a project was that?

Mr. WEINBERG. 306 apartments.

Mr. SIMON. Where is Monroe Park Apartments located?

Mr. WEINBERG. In Wilmington, Del.

Mr. SIMON. How big a project is that?

Mr. WEINBERG. 606 apartments.

Mr. SIMON. Where is Pleasantville Apartments located?

Mr. WEINBERG. In the suburbs of Pleasantville.

Mr. SIMON. Pleasantville, N. J.?

Mr. WEINBERG. That is right.

Mr. SIMON. Is that near Camden?

Mr. WEINBERG. No; that is near Pomona Air Station, Atlantic City, N. J., and specifically built at the request of the Navy, incidentally.

Mr. SIMON. Where is Barrington Manor Apartments located?

Mr. WEINBERG. Barrington, N. J., which is near Camden.

Mr. SIMON. Thank you.

Senator BUSH. Thank you very much.

For the record, the chairman would like to state that today's witnesses report total mortgages of \$100,100,902, and the mortgage proceeds exceed the total cost in these projects by \$10,393,171.

This covers all 13 witnesses and all of the projects on which they testified.

There being no other business, the committee will stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 3:05 p. m., the committee recessed until 10 a. m., Friday, October 1, 1954.)

# FHA INVESTIGATION

FRIDAY, OCTOBER 1, 1954

UNITED STATES SENATE  
BANKING AND CURRENCY COMMITTEE,  
*New York, N. Y.*

The committee met, pursuant to recess at 10 a. m., Senator Prescott Bush presiding.

Present: Senator Bush.

Also present: William Simon, general counsel; Richard W. Hogue and Clarence E. Dinkins, assistant counsel.

Senator BUSH. The committee will please be in order.

The first witness this morning is Mr. Samuel Caspert. Will you raise your right hand, please?

Do you solemnly swear the testimony you shall give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

## TESTIMONY OF SAMUEL CASPERT, MANHATTANTOWN, NEW YORK, ACCOMPANIED BY SAMUEL I. ROSENMAN AND MAX FREUND, COUNSEL

Mr. CASPERT. I do.

Senator BUSH. Will you give your correct name and address to the clerk, please?

Mr. CASPERT. My name is Samuel Caspert. I reside at 245 West 107th Street, New York City.

Senator BUSH. Mr. Simon.

Mr. SIMON. On your left is your counsel, Judge Rosenman?

Mr. CASPERT. That is correct, sir.

Mr. SIMON. Could you identify the gentleman back of you?

Mr. CASPERT. Mr. Max Freund, associate of Mr. Rosenman.

Mr. SIMON. Mr. Caspert, you are one of the stockholders of Manhattantown, Inc.?

Mr. CASPERT. I am.

Mr. SIMON. Are you also an officer of the company?

Mr. CASPERT. I am.

Mr. SIMON. What office do you hold?

Mr. CASPERT. Secretary.

Mr. SIMON. Are you also a director of the company?

Mr. CASPERT. I am.

Mr. SIMON. Manhattantown, Inc., was organized, was it not, for the purpose of promoting a slum-clearance project under title I of the National Housing Act?

Mr. CASPERT. That is correct.

Mr. SIMON. Who was the person who first conceived the idea of this project?

Mr. CASPERT. In the middle of 1949 I lived right in this area, since 1936, and I watched the area deteriorate as far as the buildings were concerned.

Mr. SIMON. My question is solely who got the idea? Was it you—

Mr. CASPERT. It was my idea first.

Mr. SIMON. It was your idea?

Mr. CASPERT. Right.

Mr. SIMON. You went to Mr. Ferman and the others and told them about it?

Mr. CASPERT. That is right.

Mr. SIMON. From 1949 until May of 1952, you interested other people in the project and finally on that date signed a contract with the city of New York for the going ahead with the project, is that right?

Mr. CASPERT. I and the five people that were interested in 1949.

Mr. SIMON. Who were the other people that were interested with you from the beginning?

Mr. CASPERT. Jack Ferman.

Mr. SIMON. What is Mr. Ferman's business?

Mr. CASPERT. Builder.

Mr. SIMON. He is a builder with offices at 1775 Broadway?

Mr. CASPERT. That is correct, sir.

Mr. SIMON. Who else?

Mr. CASPERT. John L. Hennessy.

Mr. SIMON. What is his address?

Mr. CASPERT. Real Estate Management Co., of 230 West 99th Street.

Mr. SIMON. Who were the others?

Mr. CASPERT. Mr. Nathan Singer, who has died since. He was an accountant.

Mr. SIMON. Who else?

Mr. CASPERT. Mr. Nathan Silver, who is a real estate owner and operator.

Mr. SIMON. What is his address?

Mr. CASPERT. I believe his business address is 1774 Broadway.

Mr. SIMON. And is that all?

Mr. CASPERT. Those are the original five.

Mr. SIMON. So the five includes you?

Mr. CASPERT. That is right.

Mr. SIMON. Four plus yourself?

Mr. CASPERT. That is right.

Mr. SIMON. What is your business?

Mr. CASPERT. I am real-estate managing, auctioneer, and liquidator.

Mr. SIMON. There are a total of 10 or 11 stockholders?

Mr. CASPERT. I believe 10.

Mr. SIMON. As I understand it, each one of those stockholders is a sort of a syndicate head and has a number of other people who own parts of his stock?

Mr. CASPERT. That is correct.

Mr. SIMON. But so far as the corporation is concerned, it is only the 10 people to whom stock was issued who are stockholders?

Mr. CASPERT. That is correct.

Mr. SIMON. And are the other five, Mr. Leistner, Sol Leistner?

Mr. CASPERT. Isadore.

Mr. SIMON. That is L-e-i-s-t-n-e-r?

Mr. CASPERT. That is correct.

Mr. SIMON. He is in the iron business, is that correct?

Mr. CASPERT. That is correct.

Mr. SIMON. And Mr. Millstein?

Mr. CASPERT. That is correct.

Mr. SIMON. What is his first name?

Mr. CASPERT. I believe it is Maurice.

Mr. SIMON. What business is he in?

Mr. CASPERT. In the flooring business.

Mr. SIMON. There is a Fred Landau who is an auditor?

Mr. CASPERT. Accountant.

Mr. SIMON. What is his address?

Mr. CASPERT. 1440 Broadway.

Mr. SIMON. There is Robert Olnick, who is a lawyer.

Mr. CASPERT. That is correct.

Mr. SIMON. Do you know his address?

Mr. CASPERT. 1775 Broadway.

Mr. SIMON. And a Mr. Feibush.

Mr. CASPERT. Charles Feibush.

Mr. SIMON. That is F-e-i-b-u-s-h?

Mr. CASPERT. That is correct.

Mr. SIMON. He is now dead, isn't he?

Mr. CASPERT. Yes.

Mr. SIMON. What was his business?

Mr. CASPERT. He had—he operated in real estate and also was connected with the tire business.

Mr. SIMON. And an M. E. Kessler?

Mr. CASPERT. That is right.

Mr. SIMON. Is he an architect?

Mr. CASPERT. Yes.

Mr. SIMON. What is his address?

Mr. CASPERT. I think 595 Broadway—Fifth Avenue or 575. I don't remember which.

Mr. SIMON. Those are the original stockholders and still the present stockholders except to the extent that Mr. Feibush's estate or his family own his stock?

Mr. CASPERT. That is correct.

Mr. SIMON. Mr. Caspert, I understand that prior to the organization of the corporation, a 2- or 3-page document was prepared by Mr. Landau for exhibition to prospective investors showing how the project would be set up and how they might expect to make a profit, is that right?

Mr. CASPERT. That may be.

Mr. SIMON. Do you have a copy of that?

Mr. CASPERT. I don't, sir.

Mr. SIMON. Where could we get a copy of that?

Mr. CASPERT. If there was one—I don't remember, but if there was one it would be in Mr. Landau's office.

Mr. SIMON. Did you ever see such a document?

Mr. CASPERT. I just can't remember.

Mr. SIMON. Being the organizers of this, wouldn't you know if there had been such a document?

Mr. CASPERT. This is going back maybe 5 years.

Mr. SIMON. I take it that you were the one who first went to Ferman and you and Ferman went to the others to tell them that was a project that they might make a profit in, is that right?

Mr. CASPERT. I didn't go to Ferman because there was going to be a profit made. I went to Ferman because I was interested in the west side, to see that it would be rehabilitated.

Mr. SIMON. Were any of these people interested in making a profit?

Mr. CASPERT. Yes. After we got into the deal we found out we may be able to accomplish it. Then we did go into the profit end of it.

Mr. SIMON. In connection with discussing with these people the prospects of making a profit, didn't you have this document prepared by Mr. Landau which showed how they might make a profit?

Mr. CASPERT. No. I don't think so. I don't remember that.

Mr. SIMON. Bear in mind, Mr. Caspert, we weren't there, and we only know what you and others tell us. Was there such a document or wasn't there?

Mr. CASPERT. I don't remember. I think there was a certain kind of a prospectus that we had for ourselves.

Mr. SIMON. To show the prospective investors what they might expect for a return on their loan, is that right?

Mr. CASPERT. Not to show to investors, no, because all the investors that came in came under a personal deal. In other words, if I asked anybody to come in, they came in because I was in it.

Mr. SIMON. And not because they might make any money out of it?

Mr. CASPERT. They figured they would make over a period of years, when the buildings were built and sold, or if we operated the building, they would make a capital gain.

Mr. SIMON. Did anybody ever ask you what he might make on this project?

Mr. CASPERT. No.

Mr. SIMON. Nobody ever asked you?

Mr. CASPERT. No.

Mr. SIMON. You told somebody they could buy some stock. Did you tell them how much they could buy?

Mr. CASPERT. They could only have what I gave them. In other words, there was 10 or 11 percent allotted to me, and I kept 6 percent for it for myself, and I allotted 5½ percent out.

Mr. SIMON. But the other stockholders, the other nine stockholders, were all invited in first by you and then by you and Ferman and Silver, isn't that right?

Mr. CASPERT. No. Each one of the 5 invited in their own group, until we got to 10. Then the 10 invited their group.

Mr. SIMON. Who invited the 4 people other than yourself in the first 5?

Mr. CASPERT. I don't remember, outside of Landau. I invited Landau. That would leave four over.

Mr. SIMON. After you had 5, who invited the second 5 to make it 10?

Mr. CASPERT. I invited Landau.

Mr. SIMON. Each of the first five got the right to pick a second person?

Mr. CASPERT. That is correct. They could pick 1 or 2, as many as they wanted. It was just allocated that to my share I had talked with Mr. Landau, and he was the only one that I invited in.

Mr. SIMON. Did any of these—

Mr. CASPERT. As a group.

Mr. SIMON. You told Mr. Landau that he might come into this picture and be 1 of the 10 original stockholders; is that correct?

Mr. CASPERT. That is correct.

Mr. SIMON. Did he ask you how much money that would require him to put up?

Mr. CASPERT. He did.

Mr. SIMON. Did you tell him?

Mr. CASPERT. I did.

Mr. SIMON. Did he ask you anything about how much money he might make on the project?

Mr. CASPERT. He did.

Mr. SIMON. What did you tell him about the prospects for profit?

Mr. CASPERT. I told him there was no figure on how much we could make, but over a period of time when the buildings would be erected, that there would be a profit in the operating, or if we sold the buildings individually or in the whole there would be a capital gain.

Mr. SIMON. Didn't Landau invite Feibush?

Mr. CASPERT. No, sir.

Mr. SIMON. Did you invite Feibush and Feibush brought Landau in?

Mr. CASPERT. No, sir. Feibush happens to be my son-in-law's uncle.

Mr. SIMON. Did you go to Feibush before you went to Landau?

Mr. CASPERT. I did.

Mr. SIMON. Did Feibush come in?

Mr. CASPERT. He did.

Mr. SIMON. Well, then, I thought you only invited in one person.

Mr. CASPERT. I correct that.

Mr. SIMON. You invited in two people?

Mr. CASPERT. Two groups, the Feibush group and the Landau group.

Mr. SIMON. Did Feibush ever ask you how much money he would have to put up?

Mr. CASPERT. He did.

Mr. SIMON. And did he ever ask you how much profit he might make?

Mr. CASPERT. I told him the same thing as I told Mr. Landau, that there would be money made in the operating of the completed buildings, and a probable capital gain.

Mr. SIMON. Did he ever ask you whether he might make a 2 percent return on his money or a 200 percent return?

Mr. CASPERT. No, sir.

Mr. SIMON. He had no notion of how much money he might make on this?

Mr. CASPERT. Absolutely not.

Mr. SIMON. All he knew was that you were in the deal, and you were inviting him to participate; is that right?

Mr. CASPERT. That is right.

Mr. SIMON. And he hadn't the slightest idea of how much money he might make?

Mr. CASPERT. There was no figure.

Mr. SIMON. Was there any discussions as to what the prospects were?

Mr. CASPERT. Outside of operating the completed properties and, as I said before, the capital gain that may arise.

Mr. SIMON. What I am really getting toward, Mr. Caspert, is whether there does exist this document of 2 pages, maybe 3 pages, in length, prepared by Mr. Landau, outlining the prospective profits of the venture. Are you prepared to say there is no such document, or—

Mr. CASPERT. No; I am not prepared to say. I said I thought there was a document.

Mr. SIMON. You thought there was such a document?

Mr. CASPERT. Yes.

Mr. SIMON. Do you have a copy of it?

Mr. CASPERT. No.

Mr. SIMON. Did you ever have a copy of it?

Mr. CASPERT. No, sir.

Mr. SIMON. Did you ever see a copy of it?

Mr. CASPERT. I may have.

Mr. SIMON. Where was it when you saw it?

Mr. CASPERT. At one of the meetings of the directors.

Mr. SIMON. Who were the directors?

Mr. CASPERT. The original 10 directors, 10 stockholders.

Mr. SIMON. Who produced this document?

Mr. CASPERT. Mr. Landau.

Mr. SIMON. Did he ever give a copy of it to anybody?

Mr. CASPERT. Not to my recollection.

Mr. SIMON. Do you know of anybody else who might have seen it?

Mr. CASPERT. Well, if the document was shown, it was shown to the directors.

Mr. SIMON. Did the directors show it to others who were prospective investors?

Mr. CASPERT. That I do not know.

Senator BUSH. Wasn't that the purpose of the document?

Mr. CASPERT. No.

Senator BUSH. What was the purpose of it?

Mr. CASPERT. I don't recall that document clearly. I don't remember what that was. I know we got to get a prospectus for ourselves.

Mr. SIMON. Mr. Caspert, did you ever show this document to a man named Parmet?

Mr. CASPERT. No, sir.

Mr. SIMON. You know Parmet?

Mr. CASPERT. I do.

Mr. SIMON. Are you absolutely certain you never showed it to Parmet?

Mr. CASPERT. I am quite sure.

Mr. SIMON. But not absolutely certain?

Mr. CASPERT. I wouldn't say I am absolutely certain; no.

Mr. SIMON. You just don't think you did; is that right?

Mr. CASPERT. I don't think I did.

Mr. SIMON. Did you ever show it to a man named Lovell?

Mr. CASPERT. I don't think so; no.

Mr. SIMON. Do you know a man named Lovell, or Lowell?

Mr. CASPERT. Lovell. I met him twice.

Mr. SIMON. What is his first name?

Mr. CASPERT. Jack.

Mr. SIMON. You never showed it to him?

Mr. CASPERT. I don't know.

Mr. SIMON. You are not certain?

Mr. CASPERT. I am not certain.

Mr. SIMON. If there is any possibility you showed it to Parmet or Lovell, then you would have had to have a copy in your possession, wouldn't you?

Mr. CASPERT. I may have.

Mr. SIMON. You may have had a copy?

Mr. CASPERT. I mean if I showed it to Lovell or Parmet, I may have had a copy. I don't recollect.

Mr. SIMON. You don't recall whether you had a copy?

Mr. CASPERT. That is correct.

Mr. SIMON. Do you recall what this document showed as to the manner in which profits were going to be made and the amount of the profits?

Mr. CASPERT. It showed the present operation, I believe—what moneys there would be in this present operation and how it would be expended toward expense.

Mr. SIMON. Didn't it also show what profit was contemplated or hoped for on the investment that was required?

Mr. CASPERT. I don't recollect.

Mr. SIMON. Where could we get a copy of this document?

Mr. CASPERT. That I don't know.

Mr. ROSENMAN. Mr. Simon, if I may interpolate here, I have made inquiry here since you just mentioned the document. It was not mentioned at any of the private hearings. I am informed by the people here that they never heard of such document and that there is none. If you have a copy, we would be glad to identify it.

Mr. SIMON. Judge, all I can say to you is that we asked every stockholder, as you know, what conversations there were about prospective profits.

Mr. ROSENMAN. That is right.

Mr. SIMON. As you know, many of them, or most of them, said that there never was any discussion about profit, but a few of them have testified under oath that there was such discussion, and have referred to this document. I get the impression from Mr. Caspert's testimony this morning—

Mr. ROSENMAN. My recollection is different, Mr. Simon. I don't think there was any mention of this document by any of the witnesses at any of the private hearings, and I tell you I heard about it for the first time this morning.

Mr. SIMON. I can only say, Judge—

Mr. ROSENMAN. Unless you mean the city brochure.

Mr. SIMON. No, sir; I definitely do not mean the city brochure. I mean a document which we have been told under oath was prepared by Mr. Landau, was two pages long, and I get the impression from Mr. Caspert that he knows what we are talking about, and it was testified to by witnesses who were not represented by your firm.

Mr. ROSENMAN. Can you give us the name of the witness? Maybe we can track it down that way, if there is such a document.

Mr. SIMON. The committee has always had the rule that they don't disclose what goes on in executive sessions.

Mr. ROSENMAN. I merely want to be helpful in tracking it down. I heard about it for the first time this morning.

Mr. SIMON. Mr. Caspert convinces me it exists from his own answers.

May we go on, Mr. Caspert? I gather Mr. Olnick may be looking for it?

Mr. CASPERT. No; Mr. Olnick knows nothing about it.

Mr. ROSENMAN. The record should show Mr. Olnick came up and consulted.

Mr. SIMON. Is Mr. Landau available; do you know?

Mr. CASPERT. I don't know. I got back. I heard you wanted me here and I came back to the country.

Mr. SIMON. For which we are grateful. You don't know whether Mr. Landau is here and available?

Mr. CASPERT. I don't know.

Mr. SIMON. Should the record accurately show, Mr. Caspert, that none of these investors ever asked, and were never told, how much they might possibly make out of this project, and none of them ever inquired as to what they might possibly make out of the project?

Mr. CASPERT. What investors do you mean, Mr. Simon?

Mr. SIMON. I mean all the people who invested money in the project.

Mr. CASPERT. I can only talk for people who invested with me.

Mr. SIMON. You said a moment ago you brought Feibush in and you brought Landau in. Didn't you talk to other people?

Mr. CASPERT. Those are the people I spoke to.

Mr. SIMON. You have a number of other people you brought in, your son, your wife, Tod, Parmet, and a whole number of them.

Mr. CASPERT. I didn't bring those in. Parmet brought in Arrut, his son-in-law, and Parmet brought in 2 or 3 people of his own. I only brought in, in my group, I brought in Parmet and Leo Vivack.

Mr. SIMON. Did they ever ask you about what they might make out of this investment?

Mr. CASPERT. They did.

Mr. SIMON. What did you tell them?

Mr. CASPERT. I told them the same as I told Mr. Feibush and Mr. Landau, that there would be a possible capital gain, and an operating profit.

Mr. CASPERT. Was there any discussion as to what the possible capital gain might be, or what the possible operating profit might be?

Mr. CASPERT. That may be.

Mr. SIMON. What was the discussion?

Mr. CASPERT. I don't recall exactly.

Mr. SIMON. What is your best recollection of what discussion was?

Mr. CASPERT. If we would build these apartments—I forget the figure what they would cost us—and if we sold them at a certain percent times the rent that the buildings would be worth so many dollars and from there, if it was sold at that there would be a capital gain from the cost to the selling price.

Mr. SIMON. Of course, that is a matter of the tax laws but was there any discussions as to how much you might possibly make out of it?

Mr. CASPERT. I don't remember that.

Mr. SIMON. If a man invests a thousand dollars in a project, I take it he would be interested in knowing whether he might make a profit of \$500 or he might make a profit of \$50,000.

Mr. CASPERT. He may have, but what they are mostly interested in, was that in the brochure, it showed them that there would be a potential profit of about 7 percent on their investment.

Senator BUSH. Was that annually, a return of 7 percent?

Mr. CASPERT. Yes, sir.

Senator BUSH. An annual return in the form of dividends?

Mr. CASPERT. It wouldn't be dividends. That is their investment, over the entire period they would made about 7 percent annually.

Mr. SIMON. What document shows that?

Mr. CASPERT. The brochure which was gotten up by the city of New York.

Mr. SIMON. Was that the only reference made in your conversations among yourselves as to prospective profit?

Mr. CASPERT. I believe so. That has the entire figure. I believe that is the only document that I can remember.

Mr. SIMON. Did you give—did you or Manhattantown give a note to any of these investors?

Mr. CASPERT. I personally gave a note to people of my group.

Mr. SIMON. For the amount of money they put up?

Mr. CASPERT. For the amount of their investment—for the amount that they loaned the corporation.

Mr. SIMON. Let's get that straightened out and come back. As I understand what happened here, your group picked a six-block area?

Mr. CASPERT. That is correct.

Mr. SIMON. And the area is bounded by 97th Street on the south and 100th Street on the north, Central Park on the east and is it Amsterdam on the west?

Mr. CASPERT. That is correct.

Mr. SIMON. That is the six-block area?

Mr. CASPERT. That is correct.

Mr. SIMON. You people picked out the area and went to the city and negotiated this arrangement?

Mr. CASPERT. That is correct.

Mr. SIMON. And the city condemned the land at a cost to the city of roughly \$15½ million?

Mr. CASPERT. That was the final acquisition cost. At that time I think it was about \$11 million.

Mr. SIMON. Contemplated, but it finally cost the city \$15½ million?

Mr. CASPERT. That is right.

Mr. SIMON. The contract that the city entered into with Manhattantown, Inc., in May of 1952, provided that the city would sell the land to Manhattantown for roughly \$4 million—about \$4,200,000.

Mr. CASPERT. \$3,200,000.

Mr. SIMON. Wasn't there approximately \$1 million taken off as the cost of demolition?

Mr. CASPERT. That is right.

Mr. SIMON. And the net price was about \$3,150,000?

Mr. CASPERT. That is right.

Mr. SIMON. But that figure was reached by saying that the value of the land was roughly \$4,150,000—

Mr. CASPERT. When the land would be cleared.

Mr. SIMON. Yes, and it would cost you \$1 million to demolish the buildings, and therefore they would sell you for \$3,150,000, the land, with your agreement to relocate the people, and demolish the buildings?

Mr. CASPERT. That is absolutely correct.

Mr. SIMON. The \$1 million credit was for the cost of relocation and demolition?

Mr. CASPERT. That is correct.

Mr. SIMON. Of the \$3,150,000 that you were to pay the city, approximately \$1 million was paid in cash?

Mr. CASPERT. I think \$1,100,000.

Mr. SIMON. \$1,100,000 paid in cash?

Mr. CASPERT. There were some-odd dollars.

Mr. SIMON. And \$2,000,000 or \$2,050,000 was due 4 years later?

Mr. CASPERT. That is correct.

Mr. SIMON. And of the \$1,150,000 cash that was to be paid the city, \$850,000 was acquired by Manhattantown through loans?

Mr. CASPERT. From their stockholders.

Mr. SIMON. From their stockholders, Manhattantown, Inc., borrowed \$850,000?

Mr. CASPERT. That is correct.

Mr. SIMON. Then it sold to their stockholders \$250,000 of stock, is that right?

Mr. CASPERT. That is correct.

Mr. SIMON. And the \$250,000 that Manhattantown got from the sale of stock plus the \$850,000 it got from the loans, it paid to the city as what you might call the down payment?

Mr. CASPERT. That is correct.

Mr. SIMON. Then the contract provided that within 4 years—I am getting ahead of myself—that there was first a sale, an auction, where anybody had the right to outbid you?

Mr. CASPERT. That is right.

Mr. SIMON. And nobody did, and on August 29, 1952, you became—by “you,” I mean your company—the owner of the project?

Mr. CASPERT. That is correct.

Mr. SIMON. Then the contract provided that you had 4 years within which to relocate the tenants, demolish the buildings, and build new structures, is that right?

Mr. CASPERT. That is correct.

Mr. SIMON. It also provided that during the 4-year period, you were to manage the property, collect the rents, and pay the demolition expenses, and you were allowed, first, 5 percent interest on the moneys you had put up, and an item or two items of 10 percent, one for profit, one for risk, if there was a profit out of the venture?

Mr. CASPERT. That is right.

Mr. SIMON. And you paid the city 5 percent interest on the \$2 million it still had coming?

Mr. CASPERT. That is right. Let me say this: Where you say that we were entitled to collect the rent, we also assumed the obligation to maintain each and every building and every apartment, including full taxes, real-estate taxes, everything.

Mr. SIMON. When you say "we" you mean the corporation?

Mr. CASPERT. That is right.

Mr. SIMON. With that preface, if I may go back: There is a brochure prepared, or at least put out by the city of New York about this property which Judge Rosenman holds in his hand, and is that the document that you referred to that talks about 7 percent interest?

Mr. CASPERT. 7.3 percent.

Mr. SIMON. That is the city's document?

Mr. CASPERT. That is right.

Mr. SIMON. Going back, was there any document prepared, a 2-page document that I refer to—it might have been 3 pages, but I am told 2—prepared by Landau, which was circulated only among your own people, prospective investors, telling them what they might make out of this project?

Mr. CASPERT. Not that I can remember.

Mr. SIMON. But you are not prepared to say there was no such document, is that right?

Mr. CASPERT. I would say not to my knowledge.

Mr. SIMON. Are you still unprepared to say whether you showed it to Parmet and whether you showed it to Lovell?

Mr. CASPERT. I am prepared to say I don't remember showing them any such document, outside of the brochure.

Mr. SIMON. The thing I am puzzled about, Mr. Caspert, you were the originator of this idea, and 1 of the 2 or 3 principal motivating factors in the thing and I just don't understand why you don't recall whether there was such a document.

Mr. CASPERT. I just don't recall it. I don't know why, but I don't recall anything like that outside the brochure because we lived with the brochure.

Mr. SIMON. As you know, we have been trying for months to find out how you people contemplated making money out of it. This document would be the answer to all those questions if we could find it.

Mr. CASPERT. Mr. Simon, I think this brochure is a complete answer to what you are trying to find out, because the 7.3 interest return on your investment I think is very good.

Mr. SIMON. That is the document which the city of New York prepared and which was available to anybody who wanted a copy of it?

Mr. CASPERT. That is right.

Mr. SIMON. A man from the street could walk in and get a copy?

Mr. CASPERT. That is correct.

Mr. SIMON. What I am inquiring about is a typewritten document, not a printed document which was prepared for investors which I am told and I haven't seen it, but it is quite a different story.

Mr. CASPERT. I don't recollect.

Mr. SIMON. But you are not prepared to say that it does not exist?

Mr. CASPERT. To my knowledge there is none exists.

Mr. SIMON. And you are not certain whether you showed it to Lovell and Parmet?

Mr. CASPERT. I am quite sure I did not show them.

Mr. SIMON. You are not prepared to say under oath you did not show it to them?

Mr. CASPERT. No. I would not say that.

Mr. SIMON. The city paid \$15,385,784 for the condemned land, is that right?

Mr. CASPERT. I believe that is correct. I wouldn't have those figures.

Mr. SIMON. And the amount of the city's appraisal of the land, after it acquired it, was \$4,157,370, is that correct?

Mr. CASPERT. I don't get that question.

Mr. SIMON. I am sorry——

Mr. CASPERT. I did not get that question.

Mr. SIMON. I don't think there is any dispute about these figures.

Mr. CASPERT. I wouldn't know the figures. Those are the city figures.

Mr. SIMON. Mr. Ferman testified that the city paid for the land in this 6-block area, \$15,385,784.

Mr. CASPERT. That may be.

Mr. ROSENMAN. If those were the figures given you at the private hearing by us they are correct.

Mr. SIMON. That is right. At the same time—this is on page 1448 of the record, Mr. Parmet said that the city appraisal of the land—bear in mind the \$15½ million was what they had to pay for the land and buildings, and the city's appraisal of the land without the buildings was \$4,157,370.

Mr. CASPERT. That may be.

Mr. SIMON. Then the city sold the land to you people, to Manhattan-town, for \$3,108,711, is that correct?

Mr. CASPERT. That is correct.

Mr. SIMON. And of that amount, you paid in cash \$1,087,350, and agreed to pay \$2,019,361 originally within 6 months of the sale, and that was later extended to the duration of the contract.

Mr. CASPERT. That is correct.

Mr. ROSENMAN. In this question you overlooked the obligation to demolish and relocate?

Mr. SIMON. Yes. The contract required you to demolish and relocate and the credit of \$1,050,000 between the sale price and the city's valuation was to adjust, or compensate you for the cost of relocation and demolition.

Mr. CASPERT. That is absolutely right.

Mr. SIMON. Now, the difference between the amount of money the city would get for this property, and the amount of money that it cost it, which is roughly \$12½ million, is under the law borne two-thirds by the Federal Government, and one-third by the city of New York?

Mr. CASPERT. That is right.

Mr. SIMON. So that the Federal Government has contributed or has obligated to contribute roughly \$8 million for the clearance of this 6-block area?

Mr. CASPERT. That is right.

Mr. SIMON. Now, the contract required you to relocate the tenants, demolish the buildings, and build the new buildings within 4 years, is that right?

Mr. CASPERT. That is right, sir.

Mr. SIMON. And as of the moment, you are substantially behind schedule, is that right?

Mr. CASPERT. Not to my knowledge.

Mr. SIMON. Not to your knowledge?

Mr. CASPERT. No.

Mr. SIMON. It has now been a little over 2 years since the contract was signed, is that right?

Mr. CASPERT. That is right.

Mr. SIMON. So half of the 4-year period has gone by?

Mr. CASPERT. That is correct.

Mr. SIMON. Has any activity been undertaken in constructing new buildings?

Mr. CASPERT. No. We are only at the demolition period.

Mr. SIMON. How much of the demolition has taken place?

Mr. CASPERT. I would say one-sixth is already demolished.

Mr. SIMON. One-sixth?

Mr. CASPERT. One-sixth of the entire area.

Mr. SIMON. About 16 percent?

Mr. CASPERT. That is right.

Mr. SIMON. So that in 2 years you have demolished 16 percent of the structures existing when you took over, and have done nothing in construction of the new buildings, is that right?

Mr. CASPERT. That is correct. Of course, there were plenty of obstacles in our way.

Mr. SIMON. The contract required not only that all buildings be demolished in 4 years, but the new ones be built; 4 years for demolishing all the old buildings and building the new ones, is that right?

Mr. CASPERT. We also had a provision in the contract for unforeseen circumstances. It may be prolonged a certain length of time. I don't know how long.

Mr. SIMON. What unforeseen circumstances arose?

Mr. CASPERT. Well, I will tell you this—

Mr. SIMON. The unforeseen ones.

Mr. CASPERT. The unforeseen ones: The unforeseen one, and in all due respect to the committee, the committee is one, this committee.

Mr. SIMON. That delayed the demolition of the old buildings?

Mr. CASPERT. That delayed the entire operation for 5 months.

Mr. SIMON. Were you up to schedule before this committee inquired into the project?

Mr. CASPERT. I will explain that also.

Mr. SIMON. Were you?

Mr. CASPERT. I would say we were a little behind, not too much, and that was due to the fact—

Mr. SIMON. Now wait a minute. I want to get your conception of "a little." Under the program, you are supposed to have completed the demolition of all the buildings, except the store buildings, by the end of October this year, is that right?

Mr. CASPERT. I didn't get that. What was that?

Mr. SIMON. Under the program of the city of New York, for the clearance of this project, you were to have demolished all the buildings, other than the store buildings in area 5, by the end of October of this year?

Mr. CASPERT. Well, if that is what the scale shows.

Mr. SIMON. That is what the scale shows. The scale shows that by October this year, everything except the store buildings was to have been demolished. The fact is that in many of the areas you haven't even started demolition; isn't that true?

Mr. CASPERT. Well, the buildings were vacant.

Mr. SIMON. In areas 10, 11, and 12, demolition has not started, has it?

Mr. CASPERT. No, not 10, 11, and 12.

Mr. SIMON. And under the contract you were supposed to have finished demolition of those areas by August of this year, is that right?

Mr. CASPERT. That is right.

Mr. SIMON. Do you tell me—

Mr. CASPERT. But there were obstacles in the way.

Mr. SIMON. Do you tell me if the committee hadn't inquired into this project in August, and that is when we looked into it, that you would have completed the demolition by August?

Mr. CASPERT. We would have been done with another sixth of the area, which would give us one-third.

Mr. SIMON. We were supposed to have completed the demolition of area 6 in June of this year. That was before we started.

Mr. CASPERT. That is right.

Mr. SIMON. You haven't even started the demolition as of today, isn't that right?

Mr. CASPERT. I want to explain that, sir. When we took over this property on August 29, it was one of the first title I's that was undertaken and it was quite a task. We didn't know whether we were going to acquire the property on August 29 because it was put up for auction. The first thing that we faced was violations on the buildings, way back into 1936 and 1937, hazard violations that had to be removed or else the corporation and its officers would be criminally responsible for any fatality that may have arisen there.

Mr. SIMON. Nothing unforeseen about that, is there?

Mr. CASPERT. It was as far as we were concerned because we didn't go to look into the record before we knew we owned the property. That would cost a fortune to do that.

Mr. SIMON. You signed a contract in May of 1952, is that right?

Mr. CASPERT. We signed a contract to bid on August 29.

Mr. SIMON. You said you didn't even examine the properties until August.

Mr. CASPERT. Not physically, just walked through the area; that would cost thousands of dollars to do that.

Mr. SIMON. As a matter of fact, Mr. Caspert, didn't you have your office in this block?

Mr. CASPERT. I did, just as city marshal. That is all.

Mr. SIMON. How long had you had your office in that area?

Mr. CASPERT. Well, between the office and my furniture store, I have been there since 1936.

Mr. SIMON. In this very block?

Mr. CASPERT. Right in this area.

Mr. SIMON. In this very block?

Mr. CASPERT. Yes, sir.

Mr. SIMON. So you knew something about the area?

Mr. CASPERT. I only knew my store or my office, but I never had any access to any apartment house.

Mr. SIMON. What else delayed you?

Mr. CASPERT. That delay alone there was at least 6 months; compiling statistics on each and every tenant. There were approximately 3,600 or 3,800 individual prime tenants in this area.

Mr. SIMON. Was that an unforeseen requirement?

Mr. CASPERT. Sure, it was.

Mr. SIMON. You didn't think you would have to do that?

Mr. CASPERT. We didn't think we would have to comply with the temporary housing commission, we didn't think we would have to comply with the board of health, the fire department, police department, smoke, air pollution, everything came on top of us at that time.

Mr. SIMON. Didn't the contract require you to operate the property?

Mr. CASPERT. It did.

Mr. SIMON. Did you think you were going to be exempt from all the city laws in operating it?

Mr. CASPERT. We thought we would have the same privilege that if a municipality was going to demolish buildings, they don't do anything at all as far as buildings are concerned. We had to paint apartments even.

Mr. SIMON. Your contract required you to comply with city laws?

Mr. CASPERT. Yes. Those were unforeseen things as far as we were concerned.

Mr. SIMON. How could you say it was unforeseen when it was in the contract you had to do this?

Mr. CASPERT. It didn't tell us we had to comply with the building department.

Mr. SIMON. It said you had to comply with city laws?

Mr. CASPERT. That is right. We didn't know on a search that we were stuck with 1936 and 1937 hazardous violations that the former owners knew that this area was going to be condemned, didn't spend a nickel on their houses and let them deteriorate and here we had human beings, very fine people, although they may be poor, there were a fine class of people living there.

Mr. SIMON. You learned that after the sale?

Mr. CASPERT. That is right.

Mr. SIMON. You didn't know that before the sale?

Mr. CASPERT. No, sir.

Mr. SIMON. You didn't know they were fine people?

Mr. CASPERT. We knew they were fine people. That is why I stayed in the area.

Mr. SIMON. Didn't you know there were city laws about building conditions?

Mr. CASPERT. That is right. I didn't know they went back to 1936.

Mr. SIMON. I would assume that they went back to the beginning of the incorporation of the city of New York.

Mr. CASPERT. No. I know that I owned buildings outside this area, and I know when I get a hazardous violation I must take care of it immediately.

Mr. SIMON. We can agree that under the schedule set up by the city, which I hold in my hand, demolition was to have been completed by the end of this month, and that as of now you have completed approximately one-sixth of the demolition; is that right?

Mr. CASPERT. One-sixth and one-sixth is ready for demolition, but the demolition contractors are staying away from us due to the fact that they were called in and questioned. They don't even want to come near the place.

Mr. SIMON. You have demolished one-sixth, and the schedule called for completing the demolition by the end of this month?

Mr. CASPERT. That is correct.

Mr. SIMON. Also, nothing has been done physically toward constructing any new buildings?

Mr. CASPERT. Not at the present time.

Mr. SIMON. Now the contract provided that you might have a rental agent to manage the property; is that right?

Mr. CASPERT. That is right.

Mr. ROSEMAN. Mr. Simon, if I may interrupt, he was explaining the circumstances of delay, and you got off on this other subject.

Mr. SIMON. Were there any other circumstances of delays?

Mr. CASPERT. Well, that is the only ones I can remember.

Mr. SIMON. Those are the only ones you can remember?

Mr. ROSEMAN. May I ask you to ask him about relocation of tenants?

Mr. SIMON. I take it the difficulties of relocating tenants were not unforeseen, were they, or were they?

Mr. CASPERT. I wouldn't say they were unforeseen, but it was quite a difficult task, and we of New York here have this temporary State rent commission that when you want to have a tenant removed, you must wait a certain length of time. You must give out your demolition contract.

Mr. SIMON. When were the city ordinances passed?

Mr. CASPERT. Several years ago. Quite some time ago. During the war.

Mr. SIMON. You knew that when you signed the contract?

Mr. CASPERT. We didn't know it. We thought we would have the same rights as a municipality. When they take over the property, they remove their people very fast, and they don't have to comply with any of the laws of the city or State or Federal Government.

Mr. SIMON. There is nothing in the contract—

Mr. CASPERT. That is something we didn't know.

Mr. SIMON. The contract is to the contrary; isn't it?

Mr. CASPERT. That is right.

Mr. SIMON. Did you read the contract?

Mr. CASPERT. I did.

Mr. SIMON. If you read it, was it because you didn't understand what it said?

Mr. CASPERT. I didn't foresee what could happen.

Mr. SIMON. Of course, you did have most able counsel in preparing the contract; didn't you?

Mr. CASPERT. I believe we did, sir.

Mr. SIMON. Is there anything else that we should ask, Judge?

Mr. ROSEMAN. I would suggest you ask him about delays in obtaining financing with the legislation about FHA, and so forth.

Mr. SIMON. I intend to go into the financing at some length.

Mr. ROSEMAN. Delays in financing would explain delays in actual construction.

Mr. SIMON. We have nothing in delays in demolition of the old buildings.

The contract provided you could have a management firm to manage the property but they had to be approved by the city of New York?

Mr. CASPERT. That is right.

Mr. SIMON. Did you know that the reason that the contract pro-

vided that the management firm had to be approved by the city was that the Federal Government had insisted on that provision?

Mr. CASPERT. That is correct.

Mr. SIMON. After the project came into being, did you pick the management firm?

Mr. CASPERT. We did.

Mr. SIMON. Who was the management firm?

Mr. CASPERT. John L. Hennessy.

Mr. SIMON. And you asked the city of New York to approve John L. Hennessy & Co. as the management agent?

Mr. CASPERT. We did.

Mr. SIMON. And they did?

Mr. CASPERT. They did.

Mr. SIMON. Mr. Ferman testified in Washington that the management agent was John L. Hennessy or John L. Hennessy & Co., and the city of New York was asked to approve John L. Hennessy Co. for the management. The fact is, isn't it, Mr. Caspert, that John L. Hennessy & Co. were never the managers of this property?

Mr. CASPERT. That is not correct.

Mr. SIMON. Isn't it a fact that a partnership was formed called John L. Hennessy Co., Manhattantown division, in which Mr. Hennessy had only a 10-percent interest, and the other interest was held by you and Ferman and the rest of the sponsors here?

Mr. CASPERT. I have no interest.

Mr. SIMON. I don't mean you personally, but Hennessy had 10 percent, his son——

Mr. CASPERT. That I don't know. His individual company I have no knowledge.

Mr. SIMON. Isn't it a fact that the management firm that ran this property was not John L. Hennessy & Co., the well-known real-estate firm, but was a different company, composed of a partnership in which Hennessy had only a 10-percent interest, his son a 5-percent interest, and the other 85 percent held by stockholders of this Manhattantown project?

Mr. CASPERT. Not that I know of. I don't know what he had in the company.

Mr. SIMON. You don't even know that today?

Mr. CASPERT. I do know there are a couple of people that were investors in Manhattantown that were in the company. I don't know all of them.

Mr. SIMON. Let me ask you this: You do know, don't you, that the firm which manages this property is John L. Hennessy Co., Manhattantown division?

Mr. CASPERT. That is correct.

Mr. SIMON. And that that is a wholly separate business from the John L. Hennessy Co. real-estate business that Mr. Hennessy runs?

Mr. CASPERT. I assumed it was only a subsidiary of his original company.

Mr. SIMON. Of the original company, Hennessy and his son own the whole company; you know that, don't you?

Mr. CASPERT. No, I don't.

Mr. SIMON. Do you know anybody else who has any interest in it?

Mr. CASPERT. No; I don't

Mr. SIMON. As far as you know, they own the whole company?

- Mr. CASPERT. I wouldn't say. I don't know who is in that company.
- Mr. SIMON. Do you know whether Jack Ferman is a partner in the Hennessy real-estate business?
- Mr. CASPERT. In the Manhattantown division?
- Mr. SIMON. No; Hennessy's own real-estate business.
- Mr. CASPERT. I know they do business together.
- Mr. SIMON. Is he a partner in that business?
- Mr. CASPERT. I don't know.
- Mr. SIMON. Is Olnick a partner in Hennessy's real-estate company?
- Mr. CASPERT. I do not know.
- Mr. SIMON. What about your son? Do you know anything about his business affairs?
- Mr. CASPERT. My son?
- Mr. SIMON. Yes.
- Mr. CASPERT. Surely.
- Mr. SIMON. Is he a partner of Hennessy in his real-estate business?
- Mr. CASPERT. In his original real-estate business; no.
- Mr. SIMON. In his real-estate business?
- Mr. CASPERT. No.
- Mr. SIMON. But he is a partner in this John L. Hennessy Co., Manhattantown division; isn't he?
- Mr. CASPERT. He is.
- Mr. SIMON. How much does he own?
- Mr. CASPERT. He don't any. I don't think he owns any of that. What he done, he worked for John L. Hennessy.
- Mr. SIMON. Isn't he a partner also?
- Mr. CASPERT. I don't think he is.
- Mr. SIMON. Do you know?
- Mr. CASPERT. I am quite sure he is not.
- Mr. SIMON. Well, now, we are told that there is a partnership that runs this property, a real-estate partnership under the name of John L. Hennessy Co., Manhattantown division. We are told that it is a partnership; that Mr. Hennessy owns 10 percent, Mr. Hennessy's son 5 percent, Jack Ferman 35 percent, Robert Olnick 25 percent, and that the remaining 25 percent is owned by Millstein, Feibush, and your son; is that wrong?
- Mr. CASPERT. No. If that is what you have, it is correct, but I don't remember.
- Mr. SIMON. You didn't remember that?
- Mr. CASPERT. That is correct.
- Mr. SIMON. Then this is a different company, isn't it, from the one that Hennessy runs in his own real-estate business and which the city approved as the manager of this property?
- Mr. CASPERT. Mr. Simon, I do not know who is in Hennessy Co., the other company you are talking about. I haven't the least idea, but I do know my son is not in that company.
- Mr. SIMON. And you do know that Ferman and Olnick and Millstein and Feibush are not in the company?
- Mr. CASPERT. I do not know that. Excuse me. I knew Feibush was not.
- Mr. SIMON. Is there any doubt in your mind but what Ferman and Olnick are not partners of Hennessy in his regular real-estate business?
- Mr. CASPERT. I don't know. I know they all do business together. I don't know whether they are partners in the business but they do individual business, I presume.

Mr. SIMON. You really say you can't tell us?

Mr. CASPERT. That is the honest truth under oath, that I do not know who is in Hennessy Co.

Mr. SIMON. Senator, may we digress just long enough to ask Mr. Olnick if he is a partner in the other Hennessy Co.? Are you a partner in the Hennessy real-estate business?

Mr. OLNICK. You are talking about the other John L. Hennessy Co.? I am not a partner in that business but I do own real estate with Mr. John L. Hennessy.

Mr. SIMON. You are not a partner of John L. Hennessy Real Estate Co.?

Mr. OLNICK. No.

Mr. SIMON. You are a partner to the tune of 22½ percent in the Manhattantown division?

Mr. OLNICK. That is right.

Mr. SIMON. He is not a partner of Hennessy's regular real-estate business?

Mr. OLNICK. I don't believe he is.

Mr. SIMON. You do know, I take it, Mr. Caspert, it was the John L. Hennessy Co. and not John L. Hennessy Manhattantown division that was the company the city approved as the management agent; is that right?

Mr. CASPERT. That is correct.

Mr. SIMON. Now the management agent, this Manhattantown division, Hennessy Co., collects 5 percent of the gross rents; is that right?

Mr. CASPERT. That is right, sir.

Mr. SIMON. And that has amounted to about \$153,000 so far, hasn't it?

Mr. CASPERT. I believe; if that is what the record shows, that is correct.

Mr. SIMON. And of that money, approximately \$119,000 has been paid out to the stockholders of Manhattantown, whom I just read, as partners in that Manhattantown division, Hennessy Co.?

Mr. CASPERT. I don't know if they were stockholders, unless the record shows as such.

Mr. SIMON. What about your son, Herbert Caspert; is he a stockholder in Manhattantown?

Mr. CASPERT. Yes.

Mr. SIMON. Through you?

Mr. CASPERT. Through me.

Mr. SIMON. He got \$4,241 out of the Hennessy Co., Manhattantown division, didn't he?

Mr. CASPERT. That is not correct. My son earned \$101 for 2 years.

Mr. SIMON. I am not talking about what he earned. I am talking about what was paid as his share of the partnership income of this so-called Hennessy Co.

Mr. CASPERT. He may have drawn the money on account, but there is a loss, I believe—I don't remember correctly, but the records would show, where my son earned \$101 over a period of 2 years.

Mr. SIMON. Do you deny he was paid \$4,241.92 out of that Hennessy Manhattantown Division partnership?

Mr. CASPERT. I don't think he was paid it. I think he drew it.

Mr. SIMON. He drew it?

Mr. CASPERT. Yes.

Mr. SIMON. He got the money, in any event?

Mr. CASPERT. That is right.

Mr. SIMON. That was a part of \$119,584.82 that was divided between Ferman, Olnick, the two Hennessy's, Millstein, your son, Feibush, and his wife?

Mr. CASPERT. That may be.

Mr. SIMON. All right. Now, this Hennessy Manhattantown Division that was supposed to be the real-estate managers here; how many employees did they have?

Mr. CASPERT. I don't remember, but I do know that—

Mr. SIMON. Did they have two employees?

Mr. CASPERT. That Manhattantown charged them besides their regular payroll. I think Manhattantown charged the real-estate company \$1,000 a month for expenses that may have been intermingled there because it was a close operation.

Mr. SIMON. What you are saying there, if I understand you, is that Manhattantown hired Hennessy to manage the property?

Mr. CASPERT. That is right.

Mr. SIMON. And then Manhattantown did at least part of Hennessy's work, if not most of it?

Mr. CASPERT. That is correct.

Mr. SIMON. For which Hennessy then paid \$1,000 a month back?

Mr. CASPERT. That is correct.

Mr. SIMON. Isn't it also a fact that that \$1,000 a month deal was arranged only after the Government investigated this property, and was then arranged retroactively?

Mr. CASPERT. No.

Mr. SIMON. Are you certain of that?

Mr. CASPERT. Certain of that. There was discussion for years.

Mr. SIMON. Regardless of the discussions, which, of course, are a matter between yourselves, when was the first book entry made on that \$1,000 a month?

Mr. CASPERT. I do not know, because I am not a bookkeeper or accountant.

Mr. SIMON. If I told you the first book entry was made on March 29, 1954, would say that was wrong?

Mr. CASPERT. No. I won't say it is wrong if that is the book entry.

Mr. SIMON. The book entry, then, did that retroactively for 21 months?

Mr. CASPERT. That may be.

Mr. SIMON. By paying \$21,000, March 29, 1954?

Mr. CASPERT. That may have been.

Mr. SIMON. That may have been?

Mr. CASPERT. Yes.

Mr. SIMON. As a matter of fact, I am told it was.

Mr. CASPERT. If that is the record, that is what it is.

Mr. SIMON. And March 29 was shortly after investigators from HHFA came up here to check the project?

Mr. CASPERT. I don't remember exactly when they came in but it was around that time.

Mr. SIMON. I am told it is exactly the same date; is that right?

Mr. CASPERT. It is possible.

Mr. SIMON. Now did the Manhattantown enter into a contract with Ferman, called Ferman Builders, to do some construction work?

Mr. CASPERT. That is correct, sir.

Mr. SIMON. And how many—what is the work that Ferman Builders is supposed to do?

Mr. CASPERT. Well, they are supposed to supervise the entire construction of the new project, the new buildings.

Mr. SIMON. That hasn't started yet?

Mr. CASPERT. No.

Mr. SIMON. What else is Ferman Builders supposed to do?

Mr. CASPERT. They were also supposed to take care of the preliminary work with the city departments as to relocating water mains, and all untilities, and taking care of their demolition contracts, and so forth.

Mr. SIMON. Without going into the details, the contract provides for a great number of duties to be performed by Ferman Builders, a lot of work; is that right?

Mr. CASPERT. That is right.

Mr. SIMON. For that, Ferman Builders is paid \$25,000 a year, or \$2,080 a month; is that right?

Mr. CASPERT. Until the time of actual construction starts.

Mr. SIMON. Then it goes up?

Mr. CASPERT. Then it goes up, but not to exceed the sum of the entire project, \$275,000.

Mr. SIMON. And at this time, though, Ferman Builders gets \$25,000 a year, and so far has gotten about \$42,000?

Mr. CASPERT. That is correct.

Mr. SIMON. That is correct?

Mr. CASPERT. That is correct.

Mr. SIMON. How many employees does Ferman Builders have?

Mr. CASPERT. That I can't tell you, but I know they run an office of four rooms.

Mr. SIMON. Are you sure of that?

Mr. CASPERT. Yes.

Mr. SIMON. Isn't that Jack Ferman's own office?

Mr. CASPERT. That is where Ferman Builders are.

Mr. SIMON. They happen to occupy or be located there?

Mr. CASPERT. No. I think Ferman Builders office, and occupies a desk there.

Mr. SIMON. Are you certain of that?

Mr. CASPERT. I believe so. I don't know their setup.

Mr. SIMON. Does Ferman Builders pay any part of the rent?

Mr. CASPERT. I don't know.

Mr. SIMON. Do you know how many employees Ferman Builders has?

Mr. CASPERT. I see a couple of girls down there when I go down there.

Mr. SIMON. Would you be surprised if I told you that the only employees the Ferman Builders had were Jack Ferman and his secretary?

Mr. CASPERT. I would be surprised.

Mr. SIMON. You would be?

Mr. CASPERT. That is right.

Mr. SIMON. That is actually what the record shows. They are the only two employees.

Mr. ROSENMAN. Which record do you mean?

Mr. SIMON. Their own books. And I might add that the checks, their checkbook and their disbursements show that the only two people who have ever received any money are Mr. Ferman and his secretary. And his secretary has also been on the Manhattantown payroll, hasn't she?

Mr. CASPERT. Not that I know of.

Mr. SIMON. Do you know a girl named Lillian Ager?

Mr. CASPERT. I do.

Mr. SIMON. Isn't she Ferman's secretary?

Mr. CASPERT. She is.

Mr. SIMON. Hasn't she been on the Manhattantown payroll?

Mr. CASPERT. Not to my knowledge. Maybe in the beginning, we had so many people on there. This was a colossal job, the first of its kind, and we got together as many people as we could the first few months.

Mr. SIMON. Do you know whether Lillian Ager was on the Manhattantown payroll?

Mr. CASPERT. I don't know.

Mr. SIMON. You know she is Ferman's secretary?

Mr. CASPERT. I do know.

Mr. SIMON. Your canceled checks show she got \$1,307.64.

Mr. CASPERT. She must have been on the payroll.

Mr. SIMON. Do you know whether she was also on Ferman Builders payroll at the same time?

Mr. CASPERT. I do not.

Mr. SIMON. Going back to this Manhattantown Division—

Mr. CASPERT. Let me say on Ferman, as the work progressed, he was supposed to supply lots and lots of help there, as engineers, and so forth.

Mr. SIMON. But so far, he has gotten \$42,000 and the only employees of the company are Ferman and his secretary?

Mr. CASPERT. That is news to me.

Mr. SIMON. Now going back to the Hennessy, Manhattantown Division Co.; what employees does it have?

Mr. CASPERT. I knew they had agents.

Mr. SIMON. What are the names of them? That are on their payroll as distinguished—

Mr. CASPERT. I don't know. The record would show that. Whatever it is, I would be glad to give you the names.

Mr. SIMON. We could find only two people on the payroll of Hennessy at the present time and everything else—

Mr. CASPERT. At the present time?

Mr. SIMON. Yes.

Mr. CASPERT. That may be because there were a whole lot more agents in the beginning.

Mr. SIMON. At the present time Hennessy is getting 5 percent of the rents; is that right?

Mr. CASPERT. Yes, but the rent went down so considerably now, it is practically half what it was originally.

Mr. SIMON. At the present time, the expenses of the Hennessy Co. are 20 or 25 percent of its income.

Mr. CASPERT. I don't know too much about the operations of the

Hennessy department, Hennessy account, because that is his own company and I have nothing to do with it.

Mr. SIMON. This area, I take it, you know is larger than the Peter Cooper Village?

Mr. CASPERT. That I don't know.

Mr. SIMON. You didn't know that.

Jack Ferman is the president of this company, isn't he?

Mr. CASPERT. That is correct.

Mr. SIMON. Does he have a father named Isadore Ferman?

Mr. CASPERT. That is right.

Mr. SIMON. What is his business?

Mr. CASPERT. A builder.

Mr. SIMON. How long has he been in the building business?

Mr. CASPERT. I heard of Ferman, I believe, away back in 1932.

Mr. SIMON. His office is at the same suite of rooms at 1775 Broadway?

Mr. CASPERT. I believe so.

Mr. SIMON. Is he on the payroll of Manhattantown?

Mr. CASPERT. I believe he was.

Mr. SIMON. He got \$9,800, didn't he?

Mr. CASPERT. Yes.

Mr. SIMON. He lives in California, doesn't he?

Mr. CASPERT. No.

Mr. SIMON. Doesn't he?

Mr. CASPERT. No. He is in California only the last few months, but he lived in New York for a long time. He has a daughter living in California. He goes to visit her.

Mr. SIMON. Is there an A. Ferman?

Mr. CASPERT. Yes, sir.

Mr. SIMON. What does "A" stand for?

Mr. CASPERT. I think Abraham.

Mr. SIMON. Is that Jack Ferman's brother?

Mr. CASPERT. Yes.

Mr. SIMON. Is he on the payroll of Manhattantown?

Mr. CASPERT. He is our comptroller at Manhattantown.

Mr. SIMON. And he has been paid \$30,588?

Mr. CASPERT. For what period?

Mr. SIMON. To date.

Mr. CASPERT. To date. That may be.

Mr. SIMON. Are you on the payroll?

Mr. CASPERT. I am.

Mr. SIMON. You have received \$37,600 to date?

Mr. CASPERT. That is right.

Mr. SIMON. Has your wife been on the payroll?

Mr. CASPERT. No.

Mr. SIMON. Didn't she get \$495 for something? Or is Clair Caspert your niece?

Mr. CASPERT. My niece.

Mr. SIMON. She got \$495?

Mr. CASPERT. She was a stenographer, the first 7 weeks, I think, and we let her go.

Mr. SIMON. Is there an M. Todd?

Mr. CASPERT. That is right.

Mr. SIMON. Is that your nephew?

- Mr. CASPERT. That is correct.
- Mr. SIMON. He has been on the payroll?
- Mr. CASPERT. Yes. He was on the payroll for about 7 weeks, in the beginning, the first 7 weeks of the project.
- Mr. SIMON. Is it C. Parmet?
- Mr. CASPERT. Parmet?
- Mr. SIMON. Parmet.
- Mr. CASPERT. He is on the payroll.
- Mr. SIMON. Silver is another one of the stockholders?
- Mr. CASPERT. That is correct.
- Mr. SIMON. He is on the payroll?
- Mr. CASPERT. That is right.
- Mr. SIMON. \$31,000?
- Mr. CASPERT. That is right.
- Mr. SIMON. What is his business?
- Mr. CASPERT. Real estate.
- Mr. SIMON. Where is his office?
- Mr. CASPERT. 1440 Broadway.
- Mr. SIMON. Has he got an extensive real-estate business?
- Mr. CASPERT. He has got quite a real-estate operation.
- Mr. SIMON. You have a reasonably extensive real-estate operation yourself?
- Mr. CASPERT. I wouldn't say extensive; moderate.
- Mr. SIMON. Aren't you also running the Pratt Institute project?
- Mr. CASPERT. That is right.
- Mr. SIMON. That is over in Brooklyn?
- Mr. CASPERT. That is right.
- Mr. SIMON. That is another slum-clearance project?
- Mr. CASPERT. That is right.
- Mr. SIMON. Then Sol Leistner, he has a brother, does he, or a son, I. Leistner?
- Mr. CASPERT. That is his father, Isadore.
- Mr. SIMON. Isadore is on the payroll?
- Mr. CASPERT. That is right.
- Mr. SIMON. He has been paid about \$34,000?
- Mr. CASPERT. That is correct, and in charge of management.
- Mr. SIMON. Then there is an I. Folkman; is he one of Leistner's people?
- Mr. CASPERT. I don't remember him.
- Mr. SIMON. You wouldn't recall why he was on the payroll or why he got some money?
- Mr. CASPERT. How much did he earn?
- Mr. SIMON. I don't know how much he earned, but he was paid \$1,307.
- Mr. CASPERT. He may have been in the beginning when they organized the superintendents. There was about 150 to 200 superintendents to take care of these buildings.
- Mr. SIMON. What about J. Millstein; what relation is he to him?
- Mr. CASPERT. It may be his son. I don't know them.
- Mr. SIMON. Is he on the payroll?
- Mr. CASPERT. Not unless the records show.
- Mr. SIMON. The record does show he was on the payroll.
- Mr. CASPERT. Then he was on.
- Mr. KESSLER. He is one of the stockholders?

Mr. CASPERT. That is correct.

Mr. SIMON. What about Max Becker; was he on the payroll?

Mr. CASPERT. I believe he was.

Mr. SIMON. What did Max do?

Mr. CASPERT. If I remember correctly, Max was with the Kessler's, and he took care of these violations that I spoke about before. He would be the contact man between the building and housing department and Mr. Kessler.

Mr. SIMON. He was actually working for Mr. Kessler; wasn't he?

Mr. CASPERT. No. He was inspecting and searching the violation for Manhattantown, but he would give his information to, I believe, Mr. Kessler, who would give it to us.

Mr. SIMON. He got \$17,000. Do you know whether he kept that money?

Mr. CASPERT. That I don't know.

Mr. SIMON. You don't know what he did with the money?

Mr. CASPERT. No, sir.

Mr. SIMON. You would be surprised, would you, if he didn't keep it?

Mr. CASPERT. I would or maybe not. There may be circumstances attached that I don't know.

Mr. SIMON. Mittman—was he on the payroll? I am sorry—Feibush; was he on the payroll?

Mr. CASPERT. I think he was there for a short period.

Mr. SIMON. Landau had two people with him named Zimilus and Weiss; is that correct?

Mr. CASPERT. That is right.

Mr. SIMON. Were they each on the payroll?

Mr. CASPERT. I believe Zimilus was. I don't remember Weiss. If it is on the record, he must have been on the payroll.

Mr. SIMON. They each got \$8,300.

Mr. CASPERT. They were both on the payroll then.

Mr. SIMON. Is there any reason, Mr. Caspert, why the amount of money that various people got was in direct relation to the investment they had in the company?

Mr. CASPERT. There is no such thing. It was only for services performed.

Mr. SIMON. We find one case where there were two people, one of them put in exactly twice as much as the other, and the man who put in twice as much got paid exactly twice as much; is that just coincidence?

Mr. CASPERT. That may be, sir.

Mr. SIMON. Just coincidence?

Mr. CASPERT. That may be.

Mr. SIMON. The total salaries paid to stockholders and their relatives totals \$221,000; is that about right?

Mr. CASPERT. For a period of 2 years; is that right?

Mr. SIMON. That is about right.

Mr. CASPERT. I believe so.

Mr. SIMON. Do you have a nephew named Todd?

Mr. CASPERT. I do.

Mr. SIMON. Where does he work?

Mr. CASPERT. He works for his father-in-law in a children's clothing store.

Mr. SIMON. What are his hours working for his father-in-law?

Mr. CASPERT. I don't know.

Mr. SIMON. Nine to four?

Mr. CASPERT. I believe it is full time.

Mr. SIMON. Didn't he previously work for his own father?

Mr. CASPERT. Yes.

Mr. SIMON. What business is his father in?

Mr. CASPERT. His father has ladies specialty shops on 116th Street.

Mr. SIMON. What were his hours when he worked for his father?

Mr. CASPERT. His own hours, if I remember.

Mr. SIMON. He said his hours were 9 to 4; would you say that is wrong?

Mr. CASPERT. He was there 10 o'clock at night sometimes when he used to keep the store open. He had his own hours. It was his own father's business.

Mr. SIMON. The point I meant was he worked for his father 9 to 4 and I have no doubt later many times, and he came around to Manhattantown for a relatively few minutes after 4 o'clock.

Mr. CASPERT. That is right.

Mr. SIMON. He was on the payroll of Manhattantown?

Mr. CASPERT. Yes, for 7 weeks. At that time we didn't realize what we got into. It was such a colossal job we were glad to get anybody come to help us, even, in the beginning.

Mr. SIMON. If they even only spent a few minutes after 4 o'clock?

Mr. CASPERT. I wouldn't say a few minutes. A lot of our group used to stay there until 1 or 2 in the morning.

Mr. SIMON. Todd got there after 4 o'clock?

Mr. CASPERT. That may have been. He may have spent 3 or 4 hours, I don't know.

Mr. SIMON. You were the manager—you were the main man in Apartment Equipment Rentals, weren't you?

Mr. CASPERT. What was the question?

Mr. SIMON. Were you the main man behind Apartment Equipment Rentals?

Mr. CASPERT. What do you mean "behind"?

Mr. SIMON. Were you the man who managed it, did the work?

Mr. CASPERT. I did most of of the work for them.

Mr. SIMON. You did most of the work?

Mr. CASPERT. That is right.

Mr. SIMON. When was Apartment Equipment Rentals set up?

Mr. CASPERT. Sometime in December of 1952.

Mr. SIMON. And do you recall—Apartment Equipment Rentals purchased the stoves and iceboxes in this project and leased them to Manhattantown; isn't that right?

Mr. CASPERT. Manhattantown purchased the personal property and Apartment Equipment agreed to take over the purchase contract at whatever price Manhattantown paid for it.

Mr. SIMON. Right.

Now Apartment Equipment Rentals was formed in December of 1952; is that right?

Mr. CASPERT. That is right, sir.

Mr. SIMON. Do you know whether the first entry on the books of Apartment Equipment Rentals was the receipt of \$39,881.21 from

Manhattantown for rent for this equipment during the period from August to December?

Mr. CASPERT. That may be.

Mr. SIMON. So the very day they were organized, they got paid \$38,000 in back rent for this equipment; is that right?

Mr. CASPERT. They assumed the responsibility from September 1, when the responsibility was in effect, in 1952, and they were paid for 3½ or 4 months.

Mr. SIMON. They were paid for 3½ or 4 months rent before they were even in existence?

Mr. CASPERT. Oh, no. The papers may have been drawn. It took that long a time to formulate this contract, but Apartment Equipment assumed the responsibility to maintain and purchase all this property as of September 1, when the former owners would come in and claim from that day on.

Mr. SIMON. They agreed to that on December 16?

Mr. CASPERT. No. They agreed to it from September 1, until December 16, until they actually formulated.

Mr. SIMON. The agreement was signed on December 16?

Mr. CASPERT. That is right.

Mr. SIMON. That very day they got \$38,000 in rents?

Mr. CASPERT. That is right.

Mr. SIMON. All of the equipment had only cost \$33,000; is that right?

Mr. CASPERT. Yes, but there was a very big responsibility there.

Mr. SIMON. How big a responsibility?

Mr. CASPERT. Half a million, three-quarters of a million dollars.

Mr. SIMON. Responsibility?

Mr. CASPERT. Yes.

Mr. SIMON. Isn't it a fact, Mr. Caspert, that what happened is Apartment Equipment Rental Co. was formed on December 16. It later purchased from Manhattantown this equipment that Manhattantown had paid \$33,000 for, that for a period of 1 year it leased that equipment to Manhattantown and got rental income from it; at the end of the year it sold the equipment back to Manhattantown for the same \$33,000 that it paid for it, and in the meantime, it had collected rent from Manhattantown in a large enough amount so that after paying all of its expenses, there was \$115,326.37 left over to be distributed to the partners in Manhattantown?

Mr. CASPERT. That may be.

Mr. SIMON. That is a fact, isn't it?

Mr. CASPERT. I believe that is a fact, yes.

Mr. SIMON. Isn't it also a fact that the only investment the partners made in Apartment Equipment Rental was \$11,600 that they paid into the partnership in February 1953?

Mr. CASPERT. That is not correct. They borrowed \$20,000 from the Trade Bank in which they assumed personal obligation and they also assumed, and they gave us a statement, I believe, that they were worth \$200,000, so that if there were any liability there, that they were responsible people to deal with.

Mr. SIMON. There is no question the partnership did borrow the \$20,000, but the only money they put up of their own was \$11,000?

Mr. CASPERT. No. They put up the \$20,000 they borrowed.

Mr. SIMON. Twenty thousand dollars they borrowed, \$11,000 of their own money they put up; is that right?

Mr. CASPERT. I don't know how you figure, sir, but I know if I borrow \$20,000, it is my \$20,000.

Mr. SIMON. I am not quarreling. The \$20,000 and \$11,000 is the only money that was put up?

Mr. CASPERT. That is right.

Mr. SIMON. That was put up after the partners had withdrawn \$29,950 from the partnership; isn't that right?

Mr. CASPERT. I believe that is correct.

Mr. SIMON. So that even taking your figure of \$31,000, that was put up only after they had already drawn down \$29,950?

Mr. CASPERT. That is correct.

Mr. SIMON. And the fact is that after 1 year's operations, they sold the equipment back to Manhattantown for exactly the same price they paid for it, and they took home \$115,326 after paying back the \$20,000 bank loan and after reimbursing themselves for the \$11,000 they put in?

Mr. CASPERT. That is correct. That may also apply, we paid the insurance company \$80,000 for insurance. I don't know if they paid out 10 cents in claims and liability. These boys only insured Manhattantown against any liability that may arise, because we were faced with a serious problem. I have here a stack of letters from lawyers demanding that—this is only a few of them, besides the personal appearances of the former owners of the builders asking us \$100, \$150 for refrigerators, asking us \$6 a month rent for refrigerators.

Mr. SIMON. It was Manhattantown that bought the refrigerators, iceboxes, and stoves, wasn't it?

Mr. CASPERT. Yes; they bought them—

Mr. SIMON. Sold them to the partnership for \$33,000, and at the end of the year the partnership sold them back for \$33,000?

Mr. CASPERT. Manhattantown bought them only for convenience because Manhattantown had in their contract that they would repurchase them at the end of the year at the cost and being I am in that business since 1927, and I am a merchandise man, I knew how to buy this stuff at the lowest price and they had confidence in me.

Mr. SIMON. You were secretary of Manhattantown?

Mr. CASPERT. That is correct.

Mr. SIMON. You did the work for Apartment Equipment Rental Co.; is that right?

Mr. CASPERT. Most of it.

Mr. SIMON. Who was supposed to be the head of Apartment Equipment Rental?

Mr. CASPERT. Ted Mittman.

Mr. SIMON. Is he any relation to you?

Mr. CASPERT. My son-in-law.

Mr. SIMON. He just came around once a week or so and you actually did the work?

Mr. CASPERT. That is right. He looked over the contracts, and he passed on them, and—

Mr. SIMON. How much did he get paid for being the head of it?

Mr. CASPERT. He got paid more than anybody else. The reason was that this was my idea, and as long as it was my idea, I wanted to see that my son-in-law got a better break than anybody else.

Mr. SIMON. You were not a partner?

Mr. CASPERT. No, sir.

Mr. SIMON. But your son-in-law was a partner?

Mr. CASPERT. That is right.

Mr. SIMON. He got something like \$13,000 more than the others?

Mr. CASPERT. That is right.

Mr. SIMON. You did all the work?

Mr. CASPERT. I wouldn't say all the work. I done most of the work.

Mr. SIMON. He came around once a week and looked things over, and spent half an hour or so?

Mr. CASPERT. I wouldn't say a half hour; 4 hours, half a day.

Mr. SIMON. Once a week?

Mr. CASPERT. Maybe twice a week in the beginning, while things were going on.

Mr. ROSENMAN. Mr. Simon, may I suggest that the record is very vague about what this Apartment Equipment Rental Co. was and that the witness ought to be permitted to state what it was, so that the Senator will understand what it is, and at least explain his liability that he claims would run to a half million dollars. This record, unless—

Mr. SIMON. Would you like to put a copy of the contract into the record?

Mr. ROSENMAN. No. I would like the witness to be given an opportunity to explain what he meant by saying that this money, they carried a liability, as he called it, an insurance, and as he said, it ran from a half million to \$750,000. Otherwise, the record looks, the way you put it, as though all they did was to withdraw money and furnish nothing for it.

The witness tried to explain this was an insurance policy, and very often insurance companies draw premiums and don't pay anything. I would respectfully request that he be given an opportunity to explain what he meant.

Mr. SIMON. I will be very happy to. Mr. Caspert, what did these people do besides take out \$115,000?

Mr. CASPERT. Well, I will give it to you from the beginning. On September 1, or on or about that time, of 1952, when we acquired the property, we were on the assumption, or at least I was, that when you buy property you have got the personal property, it is the same as if I bought an ordinary building. I don't pay extra for the refrigerators and ranges in the building. We found out immediately on demand of the attorneys and the former owners, they came into Manhattantown, demanding their personal property. I sent them back to the city of New York and the city of New York told them to come back to us; that the only thing that was condemned was the real estate and that was all, and we would have to pay them for their personal property.

These demands were so great, it ran, refrigerators—it amounted to, we had 3,600 or 3,800 prime tenants in this particular area. That would mean that we had about 3,000 to 3,500 refrigerators, 3,000 to 3,500 ranges; besides, we furnished rooming houses, that these people would be thrown out in the street if we didn't take over the furniture.

I therefore figured that if the demands of \$100 for refrigerator, or around that price, and \$50 for ranges, would run into a large sum of

money, over \$500,000, maybe \$750,000. We also figured that we would have to maintain these refrigerators.

That is the way this Apartment Equipment came about. I got hold of—I brought it up at the directors' meeting and there were 6 of us that sided with me, that Manhattantown should operate this particular department, and 4 directors were against it.

They said that the responsibility was much greater than what I pictured, and therefore they did not want to take the chance of Manhattantown operating because there was no telling how much of a liability we would entail there.

Mr. SIMON. The fact is you did buy the refrigerators for \$33,000; is that right?

Mr. CASPERT. Only while Apartment Equipment Co. was being formed. Then we bought them.

Mr. SIMON. Apartment Equipment was formed in December; is that right?

Mr. CASPERT. Yes, but as I told you before, it fomulated from August 29 to——

Mr. SIMON. But Apartment Equipment Rental wasn't formed until December; is that right?

Mr. CASPERT. Well——

Mr. SIMON. December 16, to be exact?

Mr. CASPERT. The papers were signed in December; that is correct.

Mr. SIMON. Between August and December, Manhattantown itself acquired the refrigerators and stoves for \$33,000?

Mr. CASPERT. That is right. Apartment Equipment group said they would assume the responsibility from September 1.

Mr. SIMON. Before Apartment Equipment Rental partnership was ever created, before the papers were signed, Manhattantown had acquired the property for \$33,000, and it then turned it over for \$33,000, and at the end of the year, the partnership got its \$33,000 back, and \$115,000 profit?

Mr. CASPERT. Yes, but during September, or August 29, 1952, to December 16, when the papers were signed, Ted Mittman came in every week and looked over the contracts. It was just as though the papers were signed.

Mr. SIMON. I gather——

Mr. CASPERT. You should also note that as far——

Mr. ROSENMAN. May I suggest he was in the midst of his explanation.

Mr. SIMON. I thought he had finished.

Mr. ROSENMAN. He was in the midst when you interrupted.

Senator BUSH. Proceed where you left off there, the formation of the company took place in December.

Mr. CASPERT. We found ourselves with a liability facing us of approximately 3,500 refrigerators and 3,500 ranges, and in this particular area, 60 percent of those were the gas refrigerators, which have been since condemned by the city of New York and you are not allowed to use them anymore, because of the carbon monoxide that may form and some people died from it, and therefore they were outlawed. We were faced with a very serious problem. At the directors meeting I got together with six of the directors who sided with me and said that we should—Manhattantown—should operate this particular department, and not give it out to anybody.

The other four directors said no. They didn't agree with me and they thought that I was minimizing the liability.

Mr. SIMON. You have gone over that once before, haven't you?

Mr. CASPERT. Yes.

Senator BUSH. Let him finish his story.

Mr. CASPERT. I am coming to it now.

At that time I said that anybody—first, I went out and I tried to call up on the telephone different refrigerator companies to find out what they would charge us to rent refrigerators, what they would charge us to rent ranges, and the prices were very high. In fact, out of 10 calls, there was only 1 person that was willing to rent refrigerators and ranges in a large quantity as we wanted. There were people who would rent you 1 or 2 for an individual house. I finally got hold of somebody out in Rockaway, and he wanted \$30 for 10 weeks, to rent refrigerators.

He didn't have as many as we would need because we wanted to be prepared in case the former owners took these refrigerators or ranges out of the buildings, and we said, "Go ahead and take them, they are yours. Take them out. We don't want to buy them."

I wanted to be sure I had somebody who would come in and replace them immediately and we would like to know what our cost would be.

Well, when I brought that back to the meeting, again those four directors decided against it. So then I asked the directors that were for it. I said, "Have you got any friends, relatives, or anybody in this particular business that we can induce, that would want to come along in a certain business like this; the risk is there but as far as I am concerned, I think the risk is not as big as they make it, and therefore I suggested to my son-in-law that if he had some money to invest, he didn't have to invest too much, and he would sign an agreement whereby he would take part of the responsibility, to take the entire liability off of Manhattantown; that there would be a chance to make some money here.

They could just as well have lost money, but it turned out that it was a good proposition.

Senator BUSH. They formed this company, Apartment Equipment Rentals?

Mr. CASPERT. That is correct, sir.

Senator BUSH. They took over the property?

Mr. CASPERT. They bought this property.

Senator BUSH. For \$33,000?

Mr. CASPERT. I don't know—

Senator BUSH. Approximately.

Mr. CASPERT. Approximately \$33,000, that is right.

Senator BUSH. They stayed in business?

Mr. CASPERT. They rented this back to Manhattantown at a figure which was supposed to be negotiated at the end of—renegotiated at the end of 8 months, and that at the end of 1 year, a recapture clause, that in the event Manhattantown thought they had too good a deal, Manhattantown could go in there, recapture this contract and do it themselves. That is just what happened.

Senator BUSH. That is what they did?

Mr. CASPERT. Yes.

Senator BUSH. The reason they did it because these people had made over \$100,000 in it?

Mr. CASPERT. That is right. Then Manhattantown knew at that time that their liability is set. They knew just about where they are going. Therefore, they all got all—all of us got together and decided, this is the time. These fellows made enough money out of that particular department. We will take it over and operate it ourselves.

Mr. ROSENMAN. I think, Senator, the record should show and I think Mr. Simon will agree with me, that this \$33,000 was not for all the refrigerators. They were only for the refrigerators that the people came in and demanded and we had to buy them. There are hundreds, maybe thousands of them still left where the title is in doubt, whether they have been abandoned or whether the owners of the building still own these refrigerators which were never bought.

In other words, Manhattantown saw the owners were not coming in to demand them and therefore the liability would not reach the heights that was originally contemplated and therefore they canceled the contract.

The \$33,000, Mr. Simon, I think you will agree does not cover all the refrigerators.

Mr. SIMON. Certainly. I want to make sure the record is clear. On the refrigerators we are talking about the agreement was signed on December 16, 1952, which was after the liability for those refrigerators had been fixed; as of the day of signing the agreement they got \$29,950 for back rentals, and the most capital they ever invested was \$11,600 of their own money and \$20,000 they had borrowed and that didn't come into the company until after they had previously received the \$29,950 of withdrawals. When the project was over, they had received total rents for the leasing of the refrigerators, of \$157,636.22, and after repaying the \$20,000 they borrowed, and after repaying the \$11,600 of capital they advanced, and after paying all the other obligations in connection with the project, they had \$115,326.37 to distribute to the partners; is that right?

Mr. CASPERT. That is right, which it turned out to be a good business and we thought we would take it back again.

Mr. SIMON. The partners of the equipment rental company included Theodore Mittman, your son-in-law, Herbert Caspert, your son, Cynthia Torgo, who is your daughter?

Mr. CASPERT. No, sir.

Mr. SIMON. What is she?

Mr. CASPERT. Nothing to me.

Mr. SIMON. Whose daughter is she?

Mr. CASPERT. I believe Nathan Silver's.

Mr. SIMON. He is a stockholder?

Mr. CASPERT. He is a stockholder.

Mr. SIMON. It includes her husband, Eugene Torgo?

Mr. CASPERT. Yes.

Mr. SIMON. Who is the husband of Cynthia and son-in-law of Silver?

Mr. CASPERT. Yes.

Mr. SIMON. It included Charles Feibush, who was a stockholder; is that right?

Mr. CASPERT. That is the only stockholder in the entire Apartment Equipment was Charles Feibush.

Mr. SIMON. Everybody who was a partner of Apartment Equipment Rental was a relative of one of the stockholders?

Mr. CASPERT. I explained to you before that I gave this——

Mr. SIMON. Mr. Caspert, isn't that true?

Mr. CASPERT. Yes; but I would like to explain it, because instead of going out and getting outside contractors, which was a problem, and we couldn't do it, I went to these six directors and I said "Have you got a relative, friend, or anybody in the business that you would like to take a chance on this particular thing?" And that is what they did. Each one brought in somebody else.

Mr. ROSENMAN. I think, Mr. Simon, the record shows that four of the stockholder directors would have nothing to do with this because they felt the risk was too high. Mr. Silver testified to that.

Mr. SIMON. I think the record will show, Judge, and we are going to get to it in a few minutes, that on these different projects different people got cut in for a piece of different things but when it was all over everybody got a ride on one of the horses.

Mr. ROSENMAN. The testimony was, and I think this witness testified, too, that four of them didn't want to ride this horse, as you say, because the liability was too great.

Mr. SIMON. Mr. Caspert, Fred Landau is another one of the stockholders?

Mr. CASPERT. I believe he is; yes.

Mr. SIMON. And he has been paid \$48,847 for auditing work?

Mr. CASPERT. For accounting and auditing; yes.

Mr. SIMON. And S. J. Kessler & Sons is an architectural firm of which Marvin Kessler is a partner?

Mr. CASPERT. I believe so.

Mr. SIMON. Melville Kessler is a stockholder in Manhattantown?

Mr. CASPERT. I believe he is.

Mr. SIMON. There isn't any doubt about it; is there?

Mr. CASPERT. I don't think so.

Mr. SIMON. He is one of your original 10 stockholders; isn't he?

Mr. CASPERT. Yes.

Mr. SIMON. He received \$9,000 for doing some architectural work?

Mr. CASPERT. That is right.

Mr. SIMON. In addition, he has a contract with the project to get 1¼ percent of the cost of constructing the new building for doing the architectural work on them; is that right?

Mr. CASPERT. No. I don't think it is 1¼ percent. I think it is a quarter percent.

Mr. SIMON. My understanding is it is 1¼ percent.

Mr. CASPERT. One and a quarter.

Mr. SIMON. I am right?

Mr. CASPERT. Yes; 1¼.

Mr. SIMON. His contract, if it is a \$30 million building, he would get \$375,000?

Mr. CASPERT. Something like that.

Mr. SIMON. One and a quarter percent of the cost of the building for doing the architectural work?

Mr. CASPERT. That is correct, sir.

Mr. SIMON. Ferman Builders, Inc., has a contract to act as the general contractor on the buildings; is that right?

Mr. CASPERT. That is right.

Mr. SIMON. And are they to get 1¼ percent, but not to exceed \$275,000?

Mr. CASPERT. That is right, for the completion of the entire project.

Mr. SIMON. Those are firm contracts, are they?

Mr. CASPERT. Yes, sir.

Mr. SIMON. Robert Olnick is a stockholder; is that right?

Mr. CASPERT. I don't think so. I don't remember.

Mr. SIMON. Isn't Robert Olnick a stockholder in Manhattantown?

Mr. CASPERT. No.

Mr. SIMON. He isn't?

Mr. CASPERT. No, I don't think so.

Mr. SIMON. Don't the stockbooks show he is?

Mr. CASPERT. No.

Mr. SIMON. As I understand this, you have 10 people, each of whom is a syndicate manager for a group of investors?

Mr. CASPERT. That is right.

Mr. SIMON. You are one of them, you have so many shares of stock, and you have got a number of people to whom you sublet, so to speak, your interest?

Mr. CASPERT. That is right.

Mr. SIMON. Isn't Mr. Olnick one of those people who was originally in it, and who sublet his interest to friends and relatives of his?

Mr. CASPERT. No. I don't think so. If I said "Yes" before, I want to correct myself. I believe that group is Harold Nodell.

Mr. SIMON. Didn't Olnick bring that deal into the picture?

Mr. CASPERT. I don't remember who brought him in. I do know he was in the group.

Mr. SIMON. Olnick is the one who brought in that deal, Fred Mack, Nansky, Block, Block & Block?

Mr. CASPERT. Maybe as an attorney. I don't think he brought them in as a stockholder.

Mr. SIMON. Didn't—

Mr. CASPERT. He was an attorney.

Mr. SIMON. But didn't Olnick or wasn't Olnick one of your original group who turned out to sublet his whole 10 percent but who brought in these people I have just mentioned?

Mr. CASPERT. That I don't know.

Mr. SIMON. You don't know that?

Mr. CASPERT. No. Harold Nodell was a stockholder in that particular group?

Mr. SIMON. I appreciate that, but isn't he one of Olnick's subholders?

Mr. SIMON. I won't say he is a subholder. I think he is a client of Olnick's.

Mr. ROSENMAN. Mr. Olnick is here.

Mr. SIMON. I understand. I was trying to shorten this.

Mr. CASPERT. You can't shorten it with me because I don't know that particular group.

Mr. SIMON. Who brought that group into the picture?

Mr. CASPERT. Olnick brought them in as an attorney.

Mr. SIMON. Exactly. Olnick has received \$26,000 for legal services from Manhattantown?

Mr. CASPERT. That is correct.

Mr. SIMON. And that is in addition to the fees paid the law firm of Rosenman, Goldmark, Collin & Kay?

Mr. CASPERT. That is right.

Mr. SIMON. Those fees totaled \$250,000, on an 8-year contract; is that right?

Mr. CASPERT. Over a period of 8 years.

Mr. SIMON. There is a written contract for a quarter of a million dollars fee payable over an 8-year period.

Mr. CASPERT. I don't think it is a quarter of a million.

Mr. ROSENMAN. \$250,000. You are not implying we have received that amount?

Mr. SIMON. No, sir; payable over 8 years, Judge.

Mr. ROSENMAN. Eight years' service?

Mr. SIMON. Yes; a written contract calling for payment of, isn't it, \$250,000?

Mr. ROSENMAN. For 8 years' services.

Mr. SIMON. Payable over 8 years for an 8 years' services?

Mr. ROSENMAN. Yes. That comes to an average of \$30,000 a year.

Mr. SIMON. Now, Mr. Caspert, I show you the application which Jack Ferman filed with the Federal Housing Administration for an FHA-insured mortgage on the first building to be built on this project and ask you if you have ever seen that before.

Mr. CASPERT. No; I have never seen it.

Mr. SIMON. You have never seen that before?

Mr. CASPERT. Never.

Mr. SIMON. Would you look at the last page, please, and tell me if that is the signature of Jack Ferman? Do you find the place?

Mr. CASPERT. Yes.

Mr. SIMON. Is that Jack Ferman's signature?

Mr. CASPERT. It looks like Ferman's. I don't know his signature to the dot. It is familiar.

Mr. SIMON. Is there any doubt in your mind, Mr. Caspert, but that is his signature?

Mr. CASPERT. No doubt. It looks like his signature.

Mr. SIMON. There is no doubt but that his signature and that is an authentic photostat of the document he filed?

Mr. CASPERT. I can't say there is no doubt. It looks like his signature.

Mr. SIMON. Have you ever heard anybody discuss the filing of such an application?

Mr. CASPERT. Yes. There was talk about it.

Mr. SIMON. You never saw it, though?

Mr. CASPERT. No, sir. The first time I saw it.

Mr. SIMON. Would you look at the third page and tell me what Mr. Ferman told the Federal Housing Administration was the square-foot value of the land; at the bottom of the first column on page 3? I think you will find \$15 and some pennies per square foot.

Mr. CASPERT. That is right.

Mr. SIMON. Do you find that?

Mr. CASPERT. Yes, sir.

Mr. SIMON. What is that? \$15.21 a square foot?

Mr. CASPERT. Per square foot.

Mr. SIMON. That is what he said was the value of this land?

Mr. CASPERT. Yes, sir; cleared land.

Mr. SIMON. When the city of New York sold you this land, do you know how much they valued the land at?

Mr. CASPERT. I don't recollect, sir.

Mr. SIMON. Mr. Ferman testified in Washington, on July 8, 1954, and I am reading from page 1447 of the transcript, that "the actual purchase price was \$3.54 a square foot," and that the city had valued the land after clearance at \$4.50 a square foot, and the difference, of course, is that million dollars' credit for demolition.

Mr. CASPERT. That is right, sir.

Mr. SIMON. His testimony is that the city's value of the land was \$4.50 a square foot, and that you actually paid \$3.54 a square foot after getting the credit. Can you give us any explanation of why the city should value the land at \$4.50 a square foot, and Mr. Ferman should value it at \$15.21 a square foot?

Mr. CASPERT. There are a lot of problems that came up here—relocation cost more—

Mr. SIMON. Relocation has nothing to do with the value of the land; does it?

Mr. CASPERT. It does. It all goes into cost.

Mr. SIMON. We are not talking about cost. We are talking about value of land.

Mr. CASPERT. That will bring the value of the land up. We are going to take our actual cost and then value the land by that.

Mr. SIMON. I don't understand that cost has anything to do with value, Mr. Caspert.

Mr. CASPERT. That is my figure. I mean, whatever it will cost us that is what we expect—

Mr. SIMON. The city's total figure for the value of the land was roughly \$4,100,000; is that right?

Mr. CASPERT. That is right.

Mr. SIMON. If you multiply that \$4.50 a square foot by the total square footage you get the city's value of \$4,100,000.

Mr. CASPERT. That is right, sir.

Mr. SIMON. And by the same process you get a valuation of \$14 million as the value of the land based on Mr. Ferman's estimate?

Mr. CASPERT. Well, I think that if you will read this whole statement, I see there is a lot of other figures on that. That may give you a clear picture of how he come to \$15.21. I personally would not know anything about it.

Mr. SIMON. Well, the city valued the land at \$4,100,000?

Mr. CASPERT. That is right.

Mr. SIMON. Mr. Ferman value it at a square-foot figure which comes out to \$14 million.

Mr. CASPERT. According to this application, that is so.

Mr. SIMON. And you have no explanation of how that happened?

Mr. CASPERT. No. I don't go into that part of it.

Mr. SIMON. If you will look on the same application, Mr. Caspert, about the middle of the same column, you will find an estimate for architect's fees for this building. Do you find that?

Mr. CASPERT. Not yet.

Mr. SIMON. There is a pencil mark there.

Mr. CASPERT. Yes.

Mr. SIMON. What is the amount that the application estimates as architect's fees? Is it 5 percent?

Mr. CASPERT. Five percent, that is correct.

Mr. SIMON. What is the date of that application?

Mr. CASPERT. December 18, 1953.

Mr. SIMON. Prior to December 18, 1953, had not Manhattantown entered into a contract with Kessler to do the architectural work for 11¼ percent?

Mr. CASPERT. They did.

Mr. SIMON. Can you tell us why the application you hold in your hand would estimate the architect's fees at 5 percent when there was a contract calling for 11¼ percent?

Mr. CASPERT. Well, the contract calls for a 5 percent architect fee.

Mr. SIMON. I thought you said the contract called for 11¼ percent.

Mr. CASPERT. The original contract with the city and the Federal Government—

Mr. SIMON. No. Doesn't the contract between Manhattantown and Kessler call for a 11¼-percent fee?

Mr. CASPERT. Yes; but I am talking about the contract between Manhattantown and the Federal Government and the city of New York; calls for a 5 percent architectural fee.

Mr. SIMON. You are talking about the contract of 1952?

Mr. CASPERT. That is right.

Mr. SIMON. And that said that they could have an architectural fee up to 5 percent; is that right?

Mr. CASPERT. I don't recollect it says "up to."

Mr. SIMON. I think you will find that it is a ceiling of 5 percent but not a fixed 5 percent.

Mr. CASPERT. That I don't know.

Mr. SIMON. In any event after the May 1952 contract was signed, but before this application was filed, Manhattantown entered into a firm contract with Kessler to do this work for 11¼-percent architectural fee?

Mr. CASPERT. That is correct.

Mr. SIMON. And the application nevertheless says 5 percent, as the estimated architect's fee?

Mr. CASPERT. That is correct, sir.

Mr. SIMON. Immediately below the architect's fee, or maybe it is immediately above it, is an estimate of a builder's fee.

Mr. CASPERT. Which also states 5 percent?

Mr. SIMON. And also the Manhattantown has a contract with Ferman Builders to do the job at a builder's fee of 11¼ percent?

Mr. CASPERT. That is correct, sir.

Mr. SIMON. The same situation is true with respect to the builder's fee that you just testified to with respect to the architect's fee?

Mr. CASPERT. That is right.

Senator BUSH. Thank you very much, Mr. Caspert. That will be all we need of you this morning.

Mr. Theodore Mittman.

Mr. Mittman, will you raise your right hand, please:

Do you solemnly swear the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF THEODORE MITTMAN, MANHATTANTOWN, NEW YORK, ACCOMPANIED BY S. J. ROSENMAN, COUNSEL**

Mr. MITTMAN. I do.

Senator BUSH. Will you give your name and address to the clerk?

Mr. MITTMAN. Theodore Mittman, 71 Clarendon Court, Metuchen, N. J.

Mr. SIMON. Much of what we intend to ask you was already asked of your father-in-law, Mr. Caspert, I believe.

Mr. MITTMAN. Yes.

Mr. SIMON. You were the manager of Apartment Equipment Rental Co.?

Mr. MITTMAN. Yes, sir.

Mr. SIMON. What was your official title?

Mr. MITTMAN. There was no official title. It was just a so-called title.

Mr. SIMON. What was the so-called title?

Mr. MITTMAN. Manager.

Mr. SIMON. And you were paid \$13,000 during the year extra for that?

Mr. MITTMAN. No. That was salary and 5 percent.

Mr. SIMON. You had a 5-percent interest in the partnership?

Mr. MITTMAN. That is right.

Mr. SIMON. In addition, you were paid \$13,000?

Mr. MITTMAN. No; in total I believe I was paid \$13,000.

Mr. SIMON. What was your salary as manager?

Mr. MITTMAN. At the rate of \$15,000 per year.

Mr. SIMON. At the rate of \$15,000 a year?

Mr. MITTMAN. Yes.

Mr. SIMON. In addition to the salary you received your proportionate share of profits?

Mr. MITTMAN. That is right.

Mr. SIMON. What did you do as manager?

Mr. MITTMAN. I went over the contracts with my father-in-law at least once a week, possibly once a week.

Mr. SIMON. What do you mean by going over the contracts?

Mr. MITTMAN. Well, he made the contracts for the ranges—

Mr. SIMON. Once the contracts were gone over you wouldn't have to do that again; would you?

Mr. MITTMAN. I thought it was necessary I go over and glance in them. I am in the business. I might as well see what is going on.

Mr. SIMON. In other words, you looked at the reports; is that right?

Mr. MITTMAN. That is right, the contracts he had made. We were obligated as apartment-equipment rental to take over the contracts he made with the former landowners.

Mr. SIMON. What is your regular business?

Mr. MITTMAN. Tire business.

Mr. SIMON. You are in the tire business?

Mr. MITTMAN. Yes.

Mr. SIMON. About once a week you went over these with your father?

Mr. MITTMAN. I would say once a week, and on Sundays he would come out and visit me.

Mr. SIMON. You would talk business when he came to visit you?

Mr. MITTMAN. That is right. We would talk.

Mr. SIMON. And the total income of Apartment Equipment Rental Co. was \$157,536.22; is that right?

Mr. MITTMAN. I don't know the exact figures. You have them in front of you.

Mr. SIMON. After paying all of the obligations and returning to the partners their advances, there was left for distribution and was distributed \$115,326; is that right?

Mr. MITTMAN. I haven't got the figures in front of me.

Mr. SIMON. Thank you very much.

Senator BUSH. Thank you. That will be all.

Mr. ROSENMAN. The record is clear, isn't it, Mr. Simon, this payroll you are talking about was not of Manhattantown but Apartment Equipment Rental?

Mr. SIMON. The \$15,000 a year he got, certainly, Judge.

Senator BUSH. Mr. Melvin Kessler.

Will you raise your right hand, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF MELVIN KESSLER, MANHATTANTOWN, NEW YORK,  
ACCOMPANIED BY S. J. ROSENMAN, COUNSEL**

Mr. KESSLER. I do.

Senator BUSH. Thank you.

Will you please be seated and give your correct name and address to the clerk?

Mr. KESSLER. Melvin E. Kessler, 1777 Grand Concourse, Bronx, New York City.

Mr. SIMON. Mr. Kessler, you are one of the stockholders of Manhattantown, Inc.?

Mr. KESSLER. Yes, sir.

Mr. SIMON. You are also in the architectural business?

Mr. KESSLER. Yes, sir.

Mr. SIMON. Do you have an employee in your office named Becker?

Mr. KESSLER. That is correct.

Mr. SIMON. Max Becker?

Mr. KESSLER. Yes.

Mr. SIMON. How long has Max Becker worked for you?

Mr. KESSLER. I would say approximately 5 years.

Mr. SIMON. What are Mr. Becker's duties?

Mr. KESSLER. Mr. Becker is my office manager, and he handles all the departmental work for my office.

Mr. SIMON. What is Mr. Becker's salary?

Mr. KESSLER. \$90 a week at present.

Mr. SIMON. How long has his salary been \$90 a week?

Mr. KESSLER. Approximately a year.

Mr. SIMON. What was it before that?

Mr. KESSLER. \$80.

Mr. SIMON. \$80 before that?

Mr. KESSLER. Yes.

Mr. SIMON. Is he still your office manager?

Mr. KESSLER. Yes, sir.

Mr. SIMON. Has he been your office manager at all times during the past 5 years?

Mr. KESSLER. Well, he has worked in more or less that capacity, but that is a title we used for him.

Mr. SIMON. What are his hours in your office?

Mr. KESSLER. He works full time in my office. He is on the outside a good part of the time.

Mr. SIMON. But he is a full-time employee of your office?

Mr. KESSLER. Yes.

Mr. SIMON. And has been for the last 5 years?

Mr. KESSLER. Except for the time he spent at Manhattantown.

Mr. SIMON. That is what I am trying to get at. When he was at Manhattantown was he working for your office or Manhattantown?

Mr. KESSLER. Working partially for me. As much time as Manhattantown needed him he was at that work.

Mr. SIMON. How much did they need him?

Mr. KESSLER. There was an awful lot of work, in compiling violations and taking care of them.

Mr. SIMON. Did he spend full time there, half time, third time?

Mr. KESSLER. I really couldn't say. He was there a good part of the time taking care of their work in the departments. If I had something for him to do in my office he also took care of that.

Mr. SIMON. During that period of time did you discontinue paying him?

Mr. KESSLER. No, sir.

Mr. SIMON. You paid him throughout?

Mr. KESSLER. Yes, sir.

Mr. SIMON. In 1952 and 1953 his salary from you was \$80 a week?

Mr. KESSLER. That is correct.

Mr. SIMON. Salary from Manhattantown was \$180 a week?

Mr. KESSLER. That is correct.

Mr. SIMON. I am not quite clear to understand how he worked full time for you before Manhattantown at \$80 a week and works part time for Manhattantown at \$180 a week.

Mr. KESSLER. Well, let me say this: They required a good departmental man to handle the violation work there. I could think of no finer person and one more familiar with the work than Mr. Becker, and if he had a chance to make the money I saw no reason in the world why he shouldn't go up there and do it.

Mr. SIMON. Did he get paid in check or by cash?

Mr. KESSLER. By check.

Mr. SIMON. How often?

Mr. KESSLER. I don't know. I believe it was every week.

Mr. SIMON. Every week?

Mr. KESSLER. I think so.

Mr. SIMON. Does that mean he got a check for \$180 every week?

Mr. KESSLER. I believe so.

Mr. SIMON. Do you know what he did with those checks?

Mr. KESSLER. Generally turned them back to me.

Mr. SIMON. To you?

Mr. KESSLER. Yes, sir.

Mr. SIMON. What did you do with them?

Mr. KESSLER. Deposited them in my account, office account.

Mr. SIMON. You mean your architectural firm?

Mr. KESSLER. That is right.

Mr. SIMON. Did Mr. Becker ever see any part of that money?

Mr. KESSLER. That I don't know.

Mr. SIMON. By "see"—

Mr. KESSLER. You made a statement before, Mr. Simon, that—

Mr. SIMON. Did Mr. Becker ever get any part of the money?

Mr. KESSLER. You made a statement before that Mr. Becker received \$17,000, I think. I don't know. I think you said that.

Mr. SIMON. I think that is about right.

Mr. KESSLER. All I can say I only received \$13,500, or approximately that, from him.

Mr. SIMON. What happened to the \$13,500 that you got?

Mr. KESSLER. It was deposited in our account.

Mr. SIMON. Did Mr. Becker get any part of that money?

Mr. KESSLER. No, sir.

Mr. SIMON. Do you know whether Mr. Becker paid income taxes on that \$13,000?

Mr. KESSLER. I would assume he did.

Mr. SIMON. That he paid income taxes?

Mr. KESSLER. Yes, sir.

Mr. SIMON. But you got the money?

Mr. KESSLER. Yes, sir.

Mr. SIMON. Did you pay any income taxes on it?

Mr. KESSLER. No, sir.

Mr. SIMON. Did you get that money on the theory that he was a full-time employee of yours, and, therefore, you were entitled to whatever money he earned?

Mr. KESSLER. No, sir.

Mr. SIMON. On what theory did you get that money?

Mr. KESSLER. He owed that money to my father and myself in helping to support himself and his family over the past—well, since his marriage actually to my sister.

Mr. SIMON. When was he married to your sister?

Mr. KESSLER. I guess they were married about 10 or 11 years, now.

Mr. SIMON. Your father loaned him this money?

Mr. KESSLER. My father and myself.

Mr. SIMON. Did you take notes for it?

Mr. KESSLER. No, sir.

Mr. SIMON. Did you keep a ledger book showing how much you loaned him?

Mr. KESSLER. No, sir.

Mr. SIMON. How much did you loan him since he was married?

Mr. KESSLER. Well, to the best I can figure out, roughly, we took—I will give you as closely as I can, we took an apartment for him in Knolls Building, we furnished the apartment, and all in all it ran to about \$13,500.

Mr. SIMON. Just exactly what he got out of it?

Mr. KESSLER. No, you said that.

Mr. SIMON. Isn't \$13,500 what you testified a minute ago he got out of the Manhattantown?

Mr. KESSLER. If that is what I said, it is about right.

Mr. SIMON. When you loaned him this money or bought the apartment and made these expenditures, I take it it was for your sister as well as for him?

Mr. KESSLER. Very definitely.

Mr. SIMON. Did you at that time intend to get repaid?

Mr. KESSLER. If possible, yes; if not, no.

Mr. SIMON. If not possible, not get paid?

Mr. KESSLER. That is correct.

Mr. SIMON. I take it you didn't consider it a business loan?

Mr. KESSLER. As such, no.

Mr. SIMON. And did the Manhattantown project offer an opportunity, shall we say, for him to get paid some money which he might repay you?

Mr. KESSLER. No. I would say this: That I thought he was well qualified for the job, and when they asked me about it I recommended him very highly. I think he did a very good job.

Mr. SIMON. I can't resist asking you if he was so well qualified as to earn \$180 a week for part-time work with Manhattantown, why he isn't more qualified than to earn \$80 a week from you, or \$90, for full-time work?

Mr. KESSLER. On a specialized job you always get more than you would on an ordinary run-of-the-mine work. Then I have office salaries which I don't like to get too high, but on a specialized job if anyone goes out on it I think they are entitled to a lot more money. It is a specialty. It was a definite specialty.

Mr. SIMON. When did you decide that the money he got from Manhattantown was all going to be applied to refund to you the money you advanced over the years?

Mr. KESSLER. Mr. Becker suggested that he do that.

Mr. SIMON. He suggested it?

Mr. KESSLER. That is correct.

Mr. SIMON. When did he make the suggestion?

Mr. KESSLER. As soon as he started getting paid up there he suggested he give it back to us in repayment for the nice way we have treated him all these years.

Mr. SIMON. Was the suggestion made before he went to work for Manhattantown?

Mr. KESSLER. No, sir.

Mr. SIMON. Thank you.

Senator BUSH. Thank you very much.

Mr. Herbert Larson.

Mr. ROSENMAN. Senator, I don't know what my privileges are here, or what your rules are: I would like the privilege of pointing out very briefly a number of things which were brought out at the private hearings with respect to these various expenditures, and the way of salaries and rent of refrigerators, and so forth, so that to show that if these or any part of them are not justified, which we deny. That if any part of them was not justified for any reason that it was nothing which inured to the detriment either of the city or the Federal Government. That this money, if any of it, should not have been paid in the way of salaries, and I think the thrust of Mr. Simon's questions is to show that some of these relatives did not earn their full amount. There has been no actual proof of that, but assuming he has so shown, I would like to point out that in the private hearings it was shown, and Mr. Simon agreed with us there, that this money was really coming out of their own pockets for the following circumstances:

Under their contract—I will be very brief about this, if I may—under the contract with the city these people were obligated to take over the management of these three hundred and seventy-odd buildings, some 4,000 families, covering 6 square blocks. To collect rents and to remove violations, maintain the buildings, heat them, and so forth, and run the buildings. That they were to do that over a period of 4 years, and at the end of the 4 years they would have them all demolished, and the new buildings up. It was provided with the contract with the city and approved by the Federal Government, that for this service they would receive 10 percent per year for a period of 3 years, of the money which they invested.

As Mr. Simon has properly brought out, they invested \$3 million. They were, therefore, entitled to what the contract called a risk fee of \$300,000 for each year, for a period of 3 years. In other words, if these buildings had been a paying venture, and had earned a net of income over disbursements, of a million dollars, they would have been entitled to keep \$900,000, and the remaining \$100,000 would have been returned to the city, and the Federal Government, two-thirds and one-third.

Now, the fact is that there will not be \$1 million there. The fact is there will not be \$900,000, and the projection is that there will be nothing there in the way of profit, so that even if the full amount of \$200,000, which Mr. Simon gave us as the addition of all the amounts which the relatives—

Mr. SIMON. \$600,000.

Mr. ROSENMAN. Does that include Apartment Equipment?

Mr. SIMON. Yes.

Mr. ROSENMAN. The figure escapes me.

I don't see how it reaches \$600,000. There is \$200,000 in salaries.

Mr. SIMON. In just a moment Mr. Larson, who will testify to the breakdown, which totals \$649,215.83—

Mr. ROSENMAN. Is that for all services?

Mr. SIMON. It is roughly three things, Judge: The salaries they took out, the Apartment Equipment Rental and the Hennessy Manhattantown project, over and above the payroll of the two or three people they had.

I don't think there is any disagreement with what you say except in one minor respect. You say they invested \$3 million. They invested \$1 million. The other \$2 million, there is no responsibility for paying, if they should decide not to go ahead with the contract. So far as the moneys they have taken out is concerned, it makes only this difference, Judge: The contract does provide, as you have said, for this 10 percent a year which, over the 3-year period, will total \$900,000. If they left that \$900,000 in Manhattantown, and at the end of the 4-year contract with the city decided not to go ahead with the project, and defaulted, then they would lose the \$900,000. Whereas, if instead of leaving the \$300,000 in the company they take it out in other ways, while it would be their \$900,000 at the end of the period if they went ahead, if they don't go ahead the only way they can get that money out is by taking it out in some manner or other during the 3-year period and, therefore, it would make a big difference if they should decide not to go ahead and build the building.

I agree with you if they go ahead and build it, it wouldn't make the difference, Judge.

Mr. ROSENMAN. I am sure you don't urge there is any testimony of any intention not to go ahead with this project. Certainly there is no indication they intend not to.

Mr. SIMON. The only testimony on that subject, and I don't mean to evaluate it or give it conclusion, is that the contract required that the new buildings be completed in 4 years from August 1952, and 2 years and a month have gone by, and only one-sixth of the demolition has been done, and none of the new construction has been done, which is a fact that speaks for itself.

Mr. ROSENMAN. I think Mr. Caspert has explained some of that delay. In the second place, I am sure that even you don't urge that all of the \$600,000 was improperly withdrawn.

Mr. SIMON. I am not in a position to say.

Mr. ROSENMAN. Somebody had to do the work, running these 4,000 families of buildings.

Senator BUSH. The thing the committee is curious about, Judge, is whether the attractiveness of the operation that these people have been engaged in hasn't perhaps delayed the construction of these buildings, which is what the Federal Government is interested in.

Mr. ROSENMAN. I think if you will look at the projection for the future, which was drawn and which is in the private bearings, I think you will find that there is no such attractiveness. Whether they thought it was attractive when they went into it, or not, what they have discovered is, it is far from attractive.

Senator BUSH. Well, we will finish our endeavors here, and we may come to that conclusion. At least that is what we are trying to find out.

May we ask for the next witness?

Is that all you want to say, Judge?

Mr. ROSENMAN. Yes, sir.

Senator BUSH. Mr. Herbert Larson. Will you raise your right hand, please?

Will you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF HERBERT LARSON, INVESTIGATOR, BANKING AND CURRENCY COMMITTEE

Mr. LARSON. I do.

Senator BUSH. Will you give your correct name and address to the clerk?

Mr. LARSON. Herbert E. Larson.

Do you want my home or office address?

Mr. SIMON. It doesn't make any difference.

Mr. LARSON. 326 Broadway, New York City.

Mr. SIMON. You are Herbert Larson?

Mr. LARSON. That is right.

Mr. SIMON. You are an employee of the General Accounting Office, who has been loaned to this committee to do some work for us at our request on the books of Manhattantown?

Mr. LARSON. That is right.

Mr. SIMON. Mr. Larson, I have in my hand, and I will hand to you in a moment, a sheet of paper on the upper half of which appears a summary of earnings by principals of Manhattantown, Inc., since

April, with respect to the Apartment Equipment Rentals project, and which shows that the people named here received a total of \$126,926.37, and had capital investment of \$11,600, or had net income from that operation of \$115,326.37, and the lower half of the sheet shows the income of principals from Manhattantown from the Hennessy Manhattantown operation, which shows that they have received a total of \$119,584.82 from the income of that Hennessy rental operation, with no investment.

I ask you whether this paper was prepared by you?

Mr. LARSON. That is correct.

Mr. SIMON. Where did you get the material that is shown on that paper?

Mr. LARSON. The information for the Apartment Equipment Rentals comes from the ledgers of the Apartment Equipment Rental Co., and the information for the John O. Hennessy Co., Manhattantown Division, comes from the ledgers of that company.

Mr. SIMON. Ledgers of that company?

Mr. LARSON. That is right.

Mr. SIMON. And they were compiled by you from the ledgers?

Mr. LARSON. That is correct.

Mr. SIMON. I have a second document consisting of 2 sheets of paper in 3 columns, or 4 columns. The first column lists the capital invested by the shareholders of Manhattantown and that includes not only the people who are shown by the books to own stock, but people to whom they subleased stock, so to speak; is that right?

Mr. LARSON. That is right.

Mr. SIMON. And where did you get the information as to who the beneficial owners of the stock were?

Mr. LARSON. We got those from Mr. Patterson.

Mr. SIMON. From Mr. Patterson?

Mr. LARSON. Yes.

Mr. SIMON. The second column lists—that is Mr. Patterson of our staff?

Mr. LARSON. That is right.

Mr. SIMON. The second column lists the salaries and contract income of the stockholders and their relatives. Where did you get the amounts of those, or that income?

Mr. LARSON. The salaries came from the salary record cards maintained by Manhattantown, Inc., and the contract costs came from the ledger.

Mr. SIMON. The contract costs came from the ledger?

Mr. LARSON. That is right.

Mr. SIMON. The items shown here, are they the actual disbursements until April 30, 1954, and the projected disbursements from April 30 to September 30, for salaries?

Mr. LARSON. First of all, I would like to say that our audit was not all inclusive. It was a special examination, and from the records we had this is all that was on the records.

Mr. SIMON. You mean to say there might be others that you didn't find?

Mr. LARSON. We may have skipped over the checks or not had all the payroll cards. We didn't tie the ledger records right back to the general ledgers.

Mr. SIMON. But everything that is shown here you did find on the books?

Mr. LARSON. That is right.

Mr. SIMON. And it is actual until April 30 and projected from April 30 to September 30; is that right?

Mr. LARSON. That is right, yes.

Mr. SIMON. The third column is the Hennessy Manhattantown income; is that right?

Mr. LARSON. That is right.

Mr. SIMON. And that is merely a recomputation of the figures shown on the sheet of paper I handed you a moment ago?

Mr. LARSON. Yes, that is correct.

Mr. SIMON. And the fourth column is the Apartment Equipment Rentals income; is that right?

Mr. LARSON. Yes. That is merely transcribed.

Mr. SIMON. That is also merely transcribed from the first sheet of paper?

Mr. LARSON. That is right.

Mr. SIMON. And the extreme right-hand column shows the totals?

Mr. LARSON. That is right.

Mr. SIMON. I hand you this paper and ask you if it is the paper that you prepared?

Mr. LARSON. That is it.

Mr. SIMON. Was that prepared by you in the manner you have just given?

Mr. LARSON. That is correct.

Mr. SIMON. Will you tell us what are the total salaries that were paid to those people during the period we have described?

Mr. LARSON. That is salaries from Manhattantown, Inc.?

Mr. SIMON. That is salaries from Manhattantown, Inc.

Mr. LARSON. \$221,637.59.

Mr. SIMON. What are the contract fees?

Mr. LARSON. I stand corrected. I didn't change this total. We had some additional contracts in there.

Would a round figure be sufficient?

Mr. SIMON. Yes.

Mr. LARSON. It is roughly about \$190,000.

Mr. SIMON. And you say you took out better than \$100,000. You took out the oil contract with one of the partners, and the repair contract with one of the partners?

Mr. LARSON. That is right. I am not sure it was one of the partners.

Mr. SIMON. One of the stockholders?

Mr. LARSON. It may be. I am not sure.

Mr. SIMON. At any rate, that is the type of contract that was taken out?

Mr. LARSON. We eliminated those.

Mr. SIMON. Where they actually bought a physical property?

Mr. LARSON. These were for services, like the plumbing contract and realty contract.

Mr. SIMON. Right.

Mr. LARSON. I happen to have Judge Rosenman's contract in. I eliminated that.

Mr. SIMON. Why don't you tell us what items make up the \$190,000?

Mr. LARSON. The building contract for Jack Ferman of \$42,000; there is a contract with Sam Caspert of \$1,600; there was another one with a Mr. Arrut for \$347.

Mr. SIMON. Arrut?

Mr. LARSON. Arrut. And Mr. Landau was \$48,000; Mr. Olnick was \$26,000; Mr. Kessler was \$14,000.

Mr. SIMON. Now, the salaries you have given, plus the contract payments you have just given—

Mr. SIMON. I have also eliminated the \$40,000 contract to Koenig Iron Works.

Mr. SIMON. That was eliminated?

Mr. LARSON. Yes.

Mr. SIMON. The salaries you have given of \$221,000, the contracts payments of \$190,000?

Mr. LARSON. That is right.

Mr. SIMON. The Apartment Equipment Rentals payments, which were about \$115,000.

Mr. LARSON. That is right.

Mr. SIMON. And the Hennessy Manhattantown Realty business of about \$118,000?

Mr. LARSON. That is right.

Mr. SIMON. Are those the four items?

Mr. LARSON. Those are the items on here.

Mr. SIMON. What is the total amount that they add up to?

Mr. LARSON. \$649,215.83.

Mr. SIMON. Now, have you tried to find the contract between Manhattantown and the Hennessy Real Estate operation?

Mr. LARSON. We asked for it, but we were told it was an oral contract.

Mr. SIMON. Who told you?

Mr. LARSON. Mr. Mann of Fred Landau's outside accountants.

Mr. SIMON. The auditors?

Mr. LARSON. And Mr. Al Ferman, the comptroller.

Mr. SIMON. They both told you the contract between Manhattantown and this partnership that does the rental management, was an oral contract?

Mr. LARSON. That is correct.

Mr. SIMON. Do you know who keeps the books of Apartment Equipment Rentals Co.?

Mr. LARSON. The people working for Manhattantown, Inc.

Mr. SIMON. Do you know who keeps the books of the Hennessy Manhattantown Real Estate operation?

Mr. LARSON. I believe that is Manhattantown, Inc., too.

Mr. SIMON. They are kept by the employees of Manhattantown?

Mr. LARSON. Yes.

Mr. SIMON. Is what happens there, Mr. Larson, that the Hennessy Manhattantown Co. gets 5 percent of the gross rents for managing the property, and then they turn around—they get that from Manhattantown?

Mr. LARSON. Yes.

Mr. SIMON. And then turn around and pay Manhattantown \$1,000 a month for doing their work?

Mr. LARSON. Generally, that is about what it amounts to.

Mr. SIMON. Senator, I would like to ask the three sheets of paper that this witness has just identified be made a part of the record.

Senator BUSH. Without objection, it is so ordered.

(The information referred to follows:)

MANHATTANTOWN, INC.

Summary of earnings by principals of Manhattantown, Inc., through Apr. 30, 1954

| Partners                              | Apartment Equipment Rental Co. |                                   |                                   | Due to partners<br>Apr. 30, 1954 | Total,<br>exclusive of<br>invested<br>capital |
|---------------------------------------|--------------------------------|-----------------------------------|-----------------------------------|----------------------------------|---|
|                                       | Capital<br>invested            | With-<br>drawals<br>Apr. 30, 1953 | With-<br>drawals<br>Apr. 30, 1954 |                                  |   |
| Theodore Mittman.....                 | \$1,500                        | \$8,250                           | \$11,625                          | \$5,357.77                       | \$25,232.77                                   |
| Frederick Dries.....                  | 1,000                          | 5,100                             | 5,683                             | 3,019.64                         | 13,802.64                                     |
| Charles Feibush.....                  | 1,500                          | 4,950                             | -----                             | 1,535.59                         | 6,485.59                                      |
| Herbert Caspert.....                  | 1,250                          | 8,250                             | -----                             | 1,956.78                         | 10,206.78                                     |
| Cynthia Zorgow (A. O. Kosenblum)..... | 750                            | 4,100                             | 2,858                             | 1,609.04                         | 8,567.04                                      |
| Abraham Rosenbaum.....                | 600                            | 3,250                             | 3,101                             | 1,366.04                         | 7,717.04                                      |
| David Shapiro.....                    | 750                            | 3,100                             | 1,691                             | 360.31                           | 5,151.31                                      |
| Jack Block.....                       | 500                            | 2,550                             | 2,241                             | 818.18                           | 5,609.18                                      |
| Milton Block.....                     | 750                            | 4,100                             | 3,075                             | 99.91                            | 7,274.91                                      |
| Eugene Zorgow.....                    | 750                            | 4,100                             | 2,700                             | (232.96)                         | 6,567.04                                      |
| Samuel Abrams.....                    | 1,000                          | 5,300                             | 2,808                             | 1,694.64                         | 9,802.64                                      |
| Milton P. Lansky.....                 | 250                            | 1,550                             | 608                               | 1,077.59                         | 3,235.59                                      |
| Ethel Raeder.....                     | 1,000                          | 5,400                             | 9,433                             | 2,440.84                         | 17,273.84                                     |
| Total.....                            | 11,600                         | 60,000                            | 45,823                            | 21,103.37                        | <sup>1</sup> 126,926.37                       |

<sup>1</sup> Explanation:

|  |              |
|--|--------------|
| Income.....                              | \$157,536.22 |
| Expenses.....                            | 42,204.85    |
| Net income.....                          | 115,331.37   |
| Total due and withdrawn by partners..... | 126,926.37   |
| Less capital invested.....               | 11,600.00    |
| Total.....                               | 115,326.37   |

NOTE.—Capital investment was made in February 1953, from drawings of December 1952.

John L. Hennessy, Manhattantown division

| Partners                               | Capital<br>invested | Drawings                | Drawings                | Owing to<br>partner-<br>ship | Totals                  |
|--|---------------------|-------------------------|-------------------------|------------------------------|-------------------------|
|  |                     | Apr. 30,<br>1953<br>(1) | Apr. 30,<br>1954<br>(2) |                              | (1) plus (2)            |
| John L. Hennessy.....                  | None                | \$9,519.18              | \$8,181.59              | (\$8,355.44)                 | \$17,700.77             |
| John L. Hennessy, drawing.....         | None                | 6,346.23                | 5,297.47                | (3,311.71)                   | 11,643.70               |
| Jack Ferman.....                       | None                | 19,038.36               | 19,479.55               | (12,822.57)                  | 38,517.91               |
| Paul Millstein.....                    | None                | 982.94                  | 12,189.42               | (12,090.09)                  | 13,172.16               |
| Robert D. Alnick.....                  | None                | 14,278.77               | 13,697.46               | (6,646.24)                   | 27,976.23               |
| Herbert Caspert.....                   | None                | 987.74                  | 3,254.18                | (3,154.85)                   | 4,241.92                |
| Charles Feibush (for Ann Feibush)..... | None                | 3,653.89                | -----                   | -----                        | 3,653.89                |
| Ann Feibush payables.....              | None                | -----                   | 2,678.24                | (2,000.76)                   | 2,678.24                |
| Total.....                             | -----               | 54,806.01               | 64,777.91               | (40,661.66)                  | <sup>1</sup> 119,584.82 |

<sup>1</sup> Explanation:

|                                |              |
|--------------------------------|--------------|
| Income.....                    | \$153,925.13 |
| Expenses (see note below)..... | 76,952.68    |
| Net income.....                | 76,952.68    |
| Total drawings.....            | 119,584.82   |
| Less due from partners.....    | 40,661.66    |
| Total.....                     | 78,923.16    |

NOTE.—These expenses include supervisory payrolls to some of interested principals (\$35,846.49).

Manhattantown, Inc., Sept. 1, 1952-Sept. 31, 1954—Summary of money received by interested principals for services rendered to maintain, demolish existing property and erect Manhattantown, Inc.

| Principals                | Capital invested | Salaries through Sept. 30, 1954 | Fees and contracts through Sept. 30, 1954 | J. L. Hennessy-Manhattan Division    |                                 | Apartment Equipment Rental           |                              | Total        |
|---------------------------|------------------|---------------------------------|---|--------------------------------------|---------------------------------|--------------------------------------|------------------------------|--------------|
|                           |                  |                                 |   | Partners drew through Sept. 30, 1954 | Salaries through Sept. 30, 1954 | Partners drew through Sept. 30, 1954 | Other through Sept. 30, 1954 |              |
| J. Ferman                 | \$104,500        |                                 | \$42,893.79                               | \$41,217.91                          |                                 |                                      |                              | \$84,111.70S |
| I. Ferman                 |                  | \$9,807.64                      |   |                                      |                                 |                                      |                              | 9,807.64S    |
| A. Ferman                 |                  | 30,588.33                       |   |                                      |                                 |                                      |                              | 30,588.33S   |
| S. Caspert                | 22,000           | 37,633.07                       | 1,687.50                                  |                                      |                                 |                                      |                              | 39,320.57S   |
| Wife                      | 22,000           | 495.00                          |   |                                      | \$275.00                        |                                      | \$250.00                     | 1,010.00S    |
| Son Herbert               | 22,000           |                                 |   | 4,941.92                             |                                 | \$10,206.78                          |                              | 15,148.70S   |
| M. Todd                   | 11,000           | 1,153.86                        |   |                                      |                                 |                                      |                              | 1,153.86S    |
| C. Parment                | 14,666           | 5,843.08                        |   |                                      |                                 |                                      |                              | 5,843.08S    |
| S. and L. Arnett          | 9,166            |                                 | 357.00                                    |                                      |                                 |                                      |                              | 357.00S      |
| Baltch                    | 9,166            |                                 |   |                                      |                                 |                                      |                              | S            |
| L. Spivack                | 16,500           |                                 |   |                                      |                                 |                                      |                              | S            |
| J. Lowell                 | 11,000           |                                 |   |                                      |                                 |                                      |                              | S            |
| Blum                      |                  |                                 |   |                                      |                                 |                                      |                              | S            |
| B. Caspert                |                  |                                 |   |                                      |                                 |                                      | 368.65                       | 368.65S      |
| J. L. Hennessy            | 27,500           |                                 |   | 20,575.77                            |                                 |                                      |                              | 20,575.77S   |
| John L. Hennessy          |                  |                                 |   | 12,643.70                            |                                 |                                      |                              | 12,643.70S   |
| Lawrence Reiner           | 11,000           |                                 |   |                                      | 1,083.29                        |                                      |                              | 1,083.29S    |
| N. Silver                 | 86,000           | 31,169.69                       |   |                                      |                                 |                                      |                              | 31,169.69S   |
| (E) A. Roeder             | 13,750           |                                 |   |                                      |                                 | 17,273.84                            |                              | 17,273.84S   |
| C. Torgaw                 |                  |                                 |   |                                      |                                 | 8,567.04                             |                              | 8,567.04S    |
| S. Gatkin                 | 16,500           | 1,961.46                        |   |                                      | 812.50                          |                                      |                              | 2,773.96S    |
| R. Silver                 |                  |                                 |   |                                      |                                 |                                      |                              |              |
| I. Hoffmann               | 5,500            |                                 |   |                                      |                                 |                                      |                              |              |
| E. Torgaw                 |                  |                                 |   |                                      |                                 | 6,567.04                             |                              | 6,567.04S    |
| I. Leistner (Koenig Iron) | 16,500           |                                 |   |                                      |                                 |                                      | 260.68                       | 260.68S      |
| I. Leistner               | 16,500           | 34,706.85                       |   |                                      |                                 |                                      | 810.00                       | 35,516.85S   |
| W. Leistner               | 16,500           |                                 |   |                                      |                                 |                                      |                              |              |
| O. Knapki                 |                  |                                 |   |                                      |                                 |                                      |                              |              |
| N. Folkman                | 11,000           | 1,307.64                        |   |                                      |                                 |                                      |                              | 1,307.64S    |
| H. Elman                  | 16,500           |                                 |   |                                      |                                 |                                      |                              |              |
| A. Rosenblum              | 11,000           |                                 |   |                                      | 1,083.29                        | 7,717.04                             |                              | 8,800.33S    |
| Sid Liestner              | 11,000           |                                 |   |                                      |                                 |                                      |                              |              |
| (F) A. Drier              | 55,000           |                                 |   |                                      |                                 | 13,802.64                            |                              | 13,802.64S   |
| G. Rosenblum              | 16,500           |                                 |   |                                      |                                 |                                      |                              |              |
| N.S. Folkman              | 11,000           |                                 |   |                                      |                                 |                                      |                              |              |
| M. Kurtz                  | 11,000           |                                 |   |                                      |                                 |                                      |                              |              |
| I. Folkman                |                  | 1,307.64                        |   |                                      | 2,166.71                        |                                      |                              | 3,474.35S    |

FHA INVESTIGATION

3145

Manhattantown, Inc., Sept. 1, 1952-Sept. 31, 1954—Summary of money received by interested principals for services rendered to maintain, demolish existing property and erect Manhattantown, Inc.—Continued

| Principals  | Capital invested | Salaries through Sept. 30, 1954 | Fees and contracts through Sept. 30, 1954 | J. L. Hennessy-Manhattan Division    |                                 | Apartment Equipment Rental           |                              | Total        |
|---|------------------|---------------------------------|---|--------------------------------------|---------------------------------|--------------------------------------|------------------------------|--------------|
|   |                  |                                 |   | Partners drew through Sept. 30, 1954 | Salaries through Sept. 30, 1954 | Partners drew through Sept. 30, 1954 | Other through Sept. 30, 1954 |              |
| M. Millstein.....   | \$104,500        |                                 |   |                                      |                                 |                                      |                              |              |
| P. Millstein.....   |                  |                                 |   | \$16,372.16                          |                                 |                                      |                              | \$16,372.16  |
| J. Millstein.....   |                  | \$1,730.79                      |   |                                      |                                 |                                      |                              | 1,730.79     |
| Fred Landuo.....  | 60,500           |                                 | \$48,847.02                               |                                      |                                 |                                      |                              | 48,847.02    |
| S. Abrams.....  | 30,250           |                                 |   |                                      |                                 | \$9,802.64                           |                              | 9,802.64     |
| A. Zimalis.....   | 30,250           | 8,301.22                        |   |                                      | \$2,740.56                      |                                      |                              | 11,041.78    |
| M. Weiss.....   |                  | 8,301.22                        |   |                                      | 2,740.56                        |                                      |                              | 11,041.78    |
| R. Olnick.....  | 49,500           |                                 | 26,100.84                                 | 30,676.23                            |                                 |                                      |                              | 56,777.07    |
| H. Nadel.....   | 11,000           |                                 |   |                                      |                                 |                                      |                              |              |
| L. Friedman.....  | 55,000           |                                 |   |                                      |                                 |                                      |                              |              |
| M. Lansky.....  | 11,000           |                                 |   |                                      |                                 | 3,235.59                             |                              | 3,235.59     |
| T. Block.....   |                  |                                 |   |                                      |                                 |                                      |                              |              |
| M. Block.....   |                  |                                 |   |                                      |                                 | 7,274.91                             |                              | 7,274.91     |
| Jack Block.....   |                  |                                 |   |                                      |                                 | 5,609.18                             |                              | 5,609.18     |
| C. Feibush.....   | 66,000           | 6,653.80                        |   | 3,653.89                             | 871.50                          | 6,485.59                             |                              | 17,664.78    |
| T. Mittman.....   | 44,000           |                                 |   |                                      |                                 | 25,232.77                            |                              | 25,232.77    |
| H. Feibush.....   |                  |                                 |   |                                      |                                 |                                      |                              |              |
| Ann Feibush (wife).....   |                  |                                 |   | 2,678.24                             |                                 |                                      |                              | 2,678.24     |
| M. E. Kessler.....  | 18,333           |                                 | 5,000.00                                  |                                      |                                 |                                      |                              | 5,000.00     |
| S. J. Kessler.....  | 18,333           |                                 | 9,000.00                                  |                                      |                                 |                                      |                              | 9,000.00     |
| Max Becker.....   |                  | 17,083.18                       |   |                                      |                                 |                                      |                              | 17,083.18    |
| _____ Kessler.....  | 18,333           |                                 |   |                                      |                                 |                                      |                              |              |
| Other:  |                  |                                 |   |                                      |                                 |                                      |                              |              |
| Lillian Agar.....   |                  | 1,307.64                        |   |                                      |                                 |                                      |                              | 1,307.64     |
| Abram Bellis.....   |                  | 7,270.01                        |   |                                      |                                 |                                      |                              | 7,270.01     |
| Louis Flanzer.....  |                  | 4,807.75                        |   |                                      |                                 |                                      |                              | 4,807.75     |
| Matilda Blaikie.....  |                  | 588.00                          |   |                                      |                                 |                                      |                              | 588.00       |
| Robert Raider.....  |                  |                                 |   |                                      | 947.96                          |                                      |                              | 947.96       |
| I. Lustig.....  |                  |                                 | 8,224.92                                  |                                      |                                 |                                      |                              | 8,224.92     |
| David Shapiro.....  |                  |                                 |   |                                      |                                 | 5,151.31                             |                              | 5,151.31     |
| Adjustment, due to posting payrolls in wrong account (see schedule attached for particulars)..... |                  |                                 |   |                                      | 21,000.00                       |                                      |                              | 21,000.00    |
| Total.....  | 1,093,414        | 212,017.87                      | 142,111.07                                | 132,759.82                           | 33,721.37                       | 126,926.37                           | \$1,679.33                   | 1,649,215.83 |

<sup>1</sup> This figure includes both the amounts actually checked and the amounts projected through Sept. 30, 1964.

Senator BUSH. Is the representative here from the Women's City Club of New York?

Will you come forward, please.

Will you raise your right hand, please:

Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole, truth, and nothing but the truth, so help you God?

**TESTIMONY OF MRS. ETHEL EMERSON WORTIS, WOMEN'S CITY CLUB, NEW YORK, N. Y.**

Mrs. WORTIS. So help me God.

Senator BUSH. Will you be seated and give your correct name and address to the clerk?

Mrs. WORTIS. My correct name is Ethel Emerson Wortis, and my address is 145 East 74th Street, New York City 21.

Senator BUSH. Would you give us your name? I didn't hear it.

Mrs. WORTIS. Mrs. Ethel Wortis.

Senator BUSH. Mrs. Wortis, you represent the Women's City Club of New York?

Mrs. WORTIS. That is correct.

Senator BUSH. Are you an officer?

Mrs. WORTIS. I am a member of the board at the present time, but during the time of our observations at Manhattantown I was the president of the club.

Senator BUSH. You were the president?

Mrs. WORTIS. Yes. I finished a 3-year term.

Senator BUSH. Will you tell us a little about this organization, what it consists of, and what are the purposes of it.

Mrs. WORTIS. This is an organization composed of about 900 women, professional and lay, whose purpose is to advance the welfare of the city of New York.

Senator BUSH. How old is this club?

Mrs. WORTIS. It is nearly 40 years old. It was organized in the late part of 1915.

Senator BUSH. You requested, yourself, that you might appear before this committee in connection with this Manhattantown matter; is that correct?

Mrs. WORTIS. The club requested so.

Senator BUSH. The club requested to be heard, and the committee agreed to hear you as a representative of the club?

Mrs. WORTIS. Yes.

Senator BUSH. Will you proceed, then, and make your statement in your own way.

Mrs. WORTIS. In March of this year, the Women's City Club of New York published a study, Tenant Relocation at West Park (Manhattantown), which analyzed interviews with 400 tenants, a random sampling of the 5,000 families living on the site of this title I development in 1953. The purpose of the survey was to determine the needs and problems of families forced to move in a vast slum-clearance operation and to observe at firsthand the process of relocation under title I and during a period of acute shortage of low-income housing.

The tabulated information showed that the great majority of the families interviewed were in the lowest income group and that many

belonged to racial minorities against whom discrimination is widely practiced. Other difficulties which these families faced in finding new quarters were physical handicaps, the large size of families, limited availability of public housing, and uprooting of long-established neighborhood preference. Nearly all families faced the necessity of paying more rent wherever they went. Less than 20 percent of the families had then received assistance of any kind from the developers, and only 10 percent had been offered any financial moving aid. Not only reports from tenants, but also our independent efforts to secure information on the relocation practices of the developers indicated, as we said in the report, that the pattern did not adequately meet the law's specific requirements in regard to relocation nor the demands of human decency.

With the final demolition dates for the first area set for late summer or fall, we undertook in May to visit 25 families in this area. It might be assumed that these families had received intensive aid in relocating. Yet out of 25 families 8 reported no help from the developers and 6 claimed they had had no instructions at all. Nine had been offered other apartments on the development site—which meant ultimately moving again. Some had found them acceptable, others had not. Three had found places for themselves off the site, and only one family had been helped by the developer in finding a place off the site. Only 3 families had been encouraged to seek public housing, and 1 of these was not interested. Nearly every family interviewed complained that the actual date when they would have to leave was unknown to them.

Of the 25 families, 6 who knew where they were going faced increases in rent, of whom 4 were merely moving to other quarters on the site. As to maintenance of their old quarters, 3 families had had major interruptions of their utilities from 1 week to 1 month, and 7 stated that repairs were made only after a long wait and in general that their former landlord did a better job than the developer.

A month's rent, or use of the developer's moving truck was promised or offered to 8 of the 25 families, though in 1 case this offer held good only if they took an apartment on the site. Two others did not need aid, but a number said no aid was offered.

In addition to information from our original survey and from these 25 recent interviews, we have a full description of the developers' practices set forth in a document issued by their counsel, S. J. Rosenman, in March 1954. They bear out our conclusion that the program for relocation of tenants from Manhattantown is subhuman in concept and inadequate in execution. It appears to us that this program is a far cry from the assurances of equitable and painstaking care of these families made by the committee on slum-clearance plans in its brochure on Manhattantown, and that the clear intent of the Federal law as to relocation as cited in the brochure has not been met. The difficulties and hardships of displacement from their homes for these underprivileged people are enough to entitle them to the promised financial aid and all-out assistance in finding decent quarters. We believe further that the developer has abused the privilege of moving families temporarily to other apartments on the site, and charging more rent. Public housing for these families, expected to be their major resource, has received surprisingly few of them. And

the new dwellings to be built on the site are far beyond the pocketbook of 93 percent of the displaced families.

Under the circumstances we are convinced that the method of handling relocation on sites to be developed with Federal aid under title I needs to be drastically revised.

Senator BUSH. Have you any suggestions to offer in connection with that last statement, how it might be drastically revised?

Mrs. WORTIS. We made recommendations in the report, which you have, to the effect that we believed that the city should have a central relocation agency, and that the city should take direct responsibility itself for relocating these families before the properties are turned over to a development company.

Senator BUSH. Have we received such recommendations?

Mr. SIMON. Yes, sir.

Senator BUSH. What started your club on this? How did you happen to get interested in this matter?

Mrs. WORTIS. In the first information which was available through the newspapers as to these developments, it became apparent that large numbers of low-income people would have to be displaced from properties which were going to be then developed to house middle-income people, and being aware of the great shortage of low-income housing, and the fact that these families were more than half belonging to minority groups, which have great difficulty anyway in finding decent housing, we were alarmed that unless great care and skill were taken in relocating these families that injustice would be made toward them, and, therefore, we decided it would be well to be in touch with the families, and what went on in the process.

Senator BUSH. I wish to commend the women's club for taking an active interest in such an important matter. I think it is very fine that we have clubs around that are surveying these social and economic problems with an intelligent interest. I think it is very fine.

Have you anything else you would like to add to your statement?

Mrs. WORTIS. I don't think I have Senator.

Senator BUSH. Thank you very much. The committee appreciates your cooperation.

The committee will stand in recess until 2 o'clock this afternoon.

Mr. ROSENMAN. Senator, if I may please, as you have heard from the women's city club, we are relocating tenants too fast and yet Mr. Simon and the staff thinks we are not relocating them fast enough. That is why we haven't moved fast enough, so we are caught in the dilemma.

The social agencies say we should delay these relocations until all of the matters are investigated which she spoke about.

If you would like to hear Mr. Caspert on this question of relocation, he would be glad to testify to it.

What I would like to do is to submit for the record, if I may, our answer to the club which we filed with the borough president on March 30 of 1954. We think if the Senator reads this you will find that a great many of the things that the last witness testified to were just not so.

In addition to that, I would like to submit the last report on relocations, which have been filed by the bureau of city real estate, to Mr. Moses, who is the chairman of the committee on slum clearance, which shows just how many people we have relocated.

I want to say just briefly that if we followed the procedures that the women's city club has suggested, we wouldn't have one-sixth of the property down and another sixth ready to come down. We wouldn't have a single building down.

I would like the privilege of marking these two things in the record.

Mr. SIMON. Is this the same document that you have Judge?

Mr. ROSENMAN. As of September 17?

Mr. SIMON. Yes.

Mr. ROSENMAN. It shows, if you will notice, we have relocated 1,359 families. There is still 2,726 left.

Mr. SIMON. It shows 1,359 have been relocated?

Mr. ROSENMAN. That is right. There is still left 2,726.

Senator BUSH. The committee will be glad to accept both documents for the record.

(The information referred to follows:)

#### PRELIMINARY STATEMENT

The following is a short summary of the answer of Manhattantown, Inc., to the report of the Women's City Club of New York, which report was filed with the borough president of the Borough of Manhattan on or about March 12, 1954, entitled "Tenant Relocation at West Park."

The answer and the letter of transmittal thereof was delivered to the borough president and released for publication on or about March 31, 1954. This summary was prepared for the purpose of having it incorporated in the minutes of the testimony taken before the United States Senate Banking and Currency Committee at a hearing held in the city of New York on October 1, 1954.

This summary was prepared at the request of counsel for the committee for inclusion in the minutes in lieu of the entire answer and letter of transmittal thereof.

Copies of the complete answer have been forwarded to the committee for their files.

As stated above, this answer was prepared in the latter part of March of 1954. At that time, Manhattantown, Inc., had cleared 34 buildings for demolition and was in the process of clearing an additional 25 buildings.

As of the present date, October 1, 1954, Manhattantown, Inc., has demolished some 79 buildings and has cleared 11 additional buildings for demolition.

A total of 1,179 apartments, in which lived some 1,388 families, have been cleared and the families relocated.

#### SUMMARY OF MANHATTANTOWN, INC., ANSWER PREPARED MARCH 1954

1. The survey upon which the report by the women's city club is based was conducted upon the erroneous assumption that in the near future, and all at the same time, every 1 of the 338 residential buildings in the 6-block area would be cleared of its 5,223 families and other tenants, and forthwith demolished.

2. The publicly approved relocation-rehousing plan for West Park calls for clearance of only a few buildings at a time. When Manhattantown, Inc., with the aid of New York City, has been able to relocate all the tenants from a small number of buildings those buildings are then to be demolished and one or more of the new buildings are to be constructed in their place.

No such area is, or can be, torn down at once by a private builder and then rebuilt at once. It would be financially suicidal for any private builder to try it. The way such a project is carried forward, in common sense, is to tear down old slum buildings to clear the space necessary to erect one new multistory dwelling, or necessary to build a school, or to construct a park or playground area on the site. Then a second set of buildings is torn down, and so on.

These operations may overlap at times, so that while a new building is going up some more old ones are being torn down on another part of the project area; but the important fact is that the whole operation is a gradual one.

It therefore permits temporary relocation of some tenants living in the buildings about to be torn down by moving them into renovated and repainted apartments in buildings which are not scheduled for demolition for another 2 years.

3. Immediately after acquisition of the area by Manhattantown, Inc., a door-to-door survey was conducted under the supervision of the New York City Bureau of Real Estate. Every tenant then living on the site was asked to come to the relocation office, located in one of the buildings in the area, to be interviewed.

At the end of a 6- to 8-month period, every tenant was interviewed, with the exception of those reappointments for interviews. It was only after the interviews had been completed that serious relocation efforts were instituted looking toward the clearance of 34 buildings, about 10 percent of the total of 338 residential buildings, located in one small part of the project.

4. During the spring and summer of 1953, the period during which the women's city club was conducting its survey, the bulk of the relocation efforts by both the redeveloper and the city was concentrated on these 34 buildings.

Relocation of the tenants of the second group of buildings to be demolished—25 in number—did not get underway seriously until late in September of 1953, after the women's city club survey had been completed.

5. The women's city club survey represents a random sampling taken evenly throughout the entire area. This sampling ignored the fact that many buildings in the area will not be torn down for 2 to 3 years.

It also ignored the fact that relocation, as planned and as being conducted in the area, is a piecemeal operation, with serious relocation efforts being concentrated on only a relatively few buildings at any one time.

In addition, the report discloses that no attempt was made to contact the families who had already been relocated, to include them in the survey, and to learn what assistance they had received in relocation and moving.

6. The women's city club report shows that, at a time when only 10 percent of the residential buildings in the area were being cleared, 18 percent of the persons interviewed stated that they were receiving relocation assistance, and 10 percent stated that they had been promised moving expenses. This would seem to refute any allegation that Manhattantown, Inc., was shirking its responsibilities.

7. Relocation has been a slow, careful process. The first group of 34 buildings was not cleared until March 15 of this year, or almost 8 months after the tenants had been notified that their buildings were scheduled for demolition. Clearance of the second group of 25 buildings, which was started in September of 1953, has not yet been completed.

8. All buildings and demolition activities by the redeveloper are geared to its relocation efforts.

9. The relocation activities of Manhattantown, Inc., are under the constant close supervision of the New York City Bureau of Real Estate. Relocation has been conducted in accordance with law and with decent human values.

Manhattantown, Inc., has expended, directly and indirectly, large sums of money to assist site tenants to find, and move to, new quarters.

10. The New York City Housing Authority, according to information furnished to Manhattantown, Inc., is making available a sufficient number of apartments in low-income projects to accommodate all site tenants who qualify under the law for public housing.

Until such apartments are available, temporary relocation in other apartments on the site is being used, and will be used.

Temporary relocation, on-site, into buildings not scheduled for demolition for 2 to 3 years will also be used for families who are financially able and willing to move into the new buildings to be built in the area and for families who have been unable to find permanent housing outside the area.

The National Housing Act of 1949 foresaw the need for on-site temporary relocation of tenants, and specifically authorized it. Manhattantown, Inc., recognizes that this temporary on-site relocation does not satisfy its ultimate obligation to see that all site tenants are relocated into suitable permanent housing accommodations, and it is prepared to fulfill that obligation.

11. The women's city club report, based upon an erroneous premise, does not reflect the situation as it existed at the time the survey was being conducted.

It also does not reflect the situation as it exists today. Its recommendation, therefore, that clearance at Manhattantown should be halted is not based on fact. If adopted, it would constitute a serious blow to the clearance of slums, and the construction of safe, sanitary housing.

The women's city club report shows how bad a slum area this is, and how beneficial its early and speedy abolition would be.

Some inconvenience is a necessary concomitant of all slum clearance. Every possible effort is being made by Manhattantown, Inc., to avoid any unnecessary

hardship in its efforts to construct decent housing in this presently substandard area, at prices consistent with the objectives of title I of the National Housing Act of 1949.

The survey conducted by the women's city club in the spring and summer of 1953 proceeded upon the false assumption that the entire six-block area would be cleared at once. In addition to this basic error, the sampling was far too small to reflect accurately the situation in the whole area.

The conclusions are entirely inconsistent with what was actually happening at the time, and cannot therefore be made the basis for any substantial change in the present title I program.

Manhattantown has not been callous or indifferent to the relocation problems of the tenants in the area. On the contrary, in endeavoring to minimize the inconvenience to the tenants, Manhattantown has been delayed in the progress of its slum-clearance program.

In a substantial number of cases, Manhattantown has had to proceed before the New York State Rent Commission for certificates permitting application to the courts for warrants of eviction and upon receiving the certificates had to then institute proceedings in court. In some cases, legal proceedings extended over a period of 7 months from the date Manhattantown made application to the rent commission and the date possession of the apartments could be obtained for demolition.

*Report on relocation and site clearance—Residential tenants—Manhattantown site—Report week ending Sept. 17, 1954*

| Number of families                                | Area 1 | Area 2 | Area 3 | Area 4 | Area 5 | Area 6 | Area 7 | Area 8 | Area 9 | Area 10 | Area 11 | Area 12 | Grand total |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|-------------|
| <b>1. At date of acquisition:</b>                 |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V.....  | 62     | 106    | 73     | 84     | 127    | 86     | 97     | 106    | 76     | 102     | 14      | 18      | 951         |
| NV.....   | 170    | 297    | 192    | 265    | 475    | 272    | 311    | 296    | 325    | 396     | 51      | 78      | 3,123       |
| <b>Total.....</b>                                 |        |        |        |        |        |        |        |        |        |         |         |         | 4,074       |
| <b>1A. Additional families since acquisition:</b> |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V.....  |        | 2      |        |        |        |        |        |        |        |         |         |         | 2           |
| NV.....   |        | 9      |        |        |        |        |        |        |        |         |         |         | 9           |
| <b>Total.....</b>                                 |        |        |        |        |        |        |        |        |        |         |         |         | 11          |
| <b>2. Temporarily relocated, to:</b>              |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V.....  |        |        | 1      | 15     | 29     | 2      |        | 5      | 4      | 13      | 1       | 3       | 73          |
| NV.....   |        |        |        | 68     | 83     | 8      | 7      | 15     | 17     | 39      | 9       | 12      | 258         |
| <b>Total.....</b>                                 |        |        |        |        |        |        |        |        |        |         |         |         | 331         |
| <b>3. Temporarily relocated, from:</b>            |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V.....  | 24     | 28     | 19     | 1      |        |        |        |        |        | 1       |         |         | 73          |
| NV.....   | 79     | 105    | 65     | 6      |        |        |        |        | 2      | 1       |         |         | 258         |
| <b>Total.....</b>                                 |        |        |        |        |        |        |        |        |        |         |         |         | 331         |
| <b>4. Number of families relocated:</b>           |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V.....  | 38     | 80     | 55     | 38     | 59     | 14     | 19     | 27     | 18     | 37      | 4       | 4       | 393         |
| NV.....   | 91     | 201    | 126    | 91     | 158    | 41     | 36     | 52     | 45     | 94      | 12      | 19      | 966         |
| <b>Total.....</b>                                 |        |        |        |        |        |        |        |        |        |         |         |         | 1,359       |
| <b>5. Public housing, low rent:</b>               |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V.....  | 15     | 13     | 11     | 4      | 13     | 5      | 9      | 9      | 3      | 8       | 1       |         | 91          |
| NV.....   | 10     | 17     | 12     | 12     | 17     | 6      | 11     | 11     | 6      | 11      |         | 4       | 117         |
| <b>Total.....</b>                                 |        |        |        |        |        |        |        |        |        |         |         |         | 208         |
| <b>6. Public housing, unsubsidized:</b>           |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V.....  | 4      | 3      | 4      | 1      | 2      | 1      | 3      | 4      | 4      | 6       |         |         | 32          |
| NV.....   |        |        | 1      | 1      | 1      |        |        | 2      | 1      | 3       |         |         | 9           |
| <b>Total.....</b>                                 |        |        |        |        |        |        |        |        |        |         |         |         | 41          |

Report on relocation and site clearance—Residential tenants—Manhattantown site—Report week ending Sept. 17, 1954—Continued

| Number of families                                       | Area 1 | Area 2 | Area 3 | Area 4 | Area 5 | Area 6 | Area 7 | Area 8 | Area 9 | Area 10 | Area 11 | Area 12 | Grand total |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|-------------|
| 7. Private rental housing, standard (L. P. A. referral): |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V  |        |        |        |        |        |        |        |        |        |         |         |         |             |
| NV   |        | 1      | 1      |        | 1      |        |        |        |        |         |         |         | 3           |
| Total  |        |        |        |        |        |        |        |        |        |         |         |         | 3           |
| 8. Private rental housing, standard (self-located):      |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V  | 19     | 62     | 37     | 33     | 43     | 7      | 7      | 13     | 10     | 23      | 3       | 4       | 261         |
| NV   | 81     | 180    | 108    | 76     | 133    | 33     | 23     | 39     | 38     | 77      | 12      | 15      | 815         |
| Total  |        |        |        |        |        |        |        |        |        |         |         |         | 1,076       |
| 9. Own home:   |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V  |        | 2      | 3      |        | 1      | 1      |        | 1      | 1      |         |         |         | 9           |
| NV   |        | 3      | 4      | 2      | 5      | 1      | 1      |        |        | 3       |         |         | 19          |
| Total  |        |        |        |        |        |        |        |        |        |         |         |         | 28          |
| 10. Private rental housing, substandard:                 |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V  |        |        |        |        |        |        |        |        |        |         |         |         |             |
| NV   |        |        |        |        | 1      | 1      | 1      |        |        |         |         |         | 3           |
| Total  |        |        |        |        |        |        |        |        |        |         |         |         | 3           |
| 11. Number of remaining families:                        |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V  |        |        |        | 60     | 97     | 74     | 78     | 84     | 62     | 77      | 11      | 17      | 560         |
| NV   |        |        | 1      | 236    | 400    | 239    | 282    | 259    | 295    | 340     | 48      | 66      | 2,166       |
| Total  |        |        |        |        |        |        |        |        |        |         |         |         | 2,726       |
| 12. Percent of remaining families:                       |        |        |        |        |        |        |        |        |        |         |         |         |             |
| V  |        |        |        |        |        |        |        |        |        |         |         |         |             |
| NV   |        |        |        |        |        |        |        |        |        |         |         |         |             |
| Total  |        |        |        |        |        |        |        |        |        |         |         |         |             |

CHARLES R. CORRINO,  
Manager.

HOUSING AND HOME FINANCE AGENCY

OFFICE OF THE ADMINISTRATOR

DIVISION OF SLUM CLEARANCE AND URBAN REDEVELOPMENT

REPORT OF RELOCATION PROGRESS AS OF MONTH ENDED SEPTEMBER 30, 1954

Name and address of local public agency: Manhattantown, 395 Central Park West, New York 25, N. Y.  
 Project number: 4-9  
 Project name: Manhattantown  
 Report for entire project

|   | White | Non-white | Total |
|---|-------|-----------|-------|
| A. Total number of families to be displaced (B+C).....                                  | 1,953 | 2,132     | 4,085 |
| 1. Eligible for low-rent public housing.....  | 549   | 731       | 1,280 |
| 2. Ineligible for low-rent public housing.....  | 1,404 | 1,401     | 2,805 |
| B. Total families for whom relocation responsibility has been discharged (1+2+3+4)..... | 892   | 496       | 1,388 |
| 1. Relocated in rental housing (a+b+c+d):   |       |           |       |
| a. Low-rent public housing.....   | 82    | 141       |       |
| b. Other permanent public housing.....  | 13    | 32        |       |
| c. Private rental (LPA referral).....   | 4     | 0         | 1,155 |
| d. Self-located private rental.....   | 687   | 196       |       |
| 2. Purchased homes.....   | 23    | 6         | 29    |
| 3. Evicted.....   | 11    | 9         | 20    |
| 4. Disappeared, whereabouts unknown.....  | 72    | 112       | 184   |
| C. Total families still to be relocated (1+2+3).....                                    | 1,061 | 1,636     | 2,697 |
| 1. Families temporarily relocated off-site.....   | 0     | 0         | 0     |
| 2. On-site transfers.....   | 193   | 111       | 304   |
| 3. Others.....  | 868   | 1,525     | 2,393 |
| D. Total eviction proceedings instituted to date (1+2+3).....                           | 11    | 9         | 20    |
| 1. Failure to pay rent.....   | 11    | 9         | 20    |
| 2. Refusal to accept suitable accommodations.....                                       | 0     | 0         | 0     |
| 3. Other.....   | 0     | 0         | 0     |

|  | Number of cases | Amount <sup>2</sup> |
|--|-----------------|---------------------|
| E. Total financial assistance granted to date (1+2+3+4)..... |                 | \$30,710.57         |
| 1. 1st month's rent for families.....                        | 314             | 13,831.89           |
| 2. Moving expenses for families.....                         | 302             | 12,846.71           |
| 3. 1st month's rent for individual householders.....         | 39              | 1,540.47            |
| 4. Moving expenses for individual householders.....          | 69              | 2,491.50            |

|                                      | Individual householders |          |       | Non-residential establishments |
|--------------------------------------|-------------------------|----------|-------|--------------------------------|
|                                      | White                   | Nonwhite | Total |                                |
| F. Progress in relocation of others: |                         |          |       |                                |
| 1. Total.....                        | 513                     | 246      | 759   | 349                            |
| 2. Relocated.....                    | 162                     | 80       | 242   | 132                            |
| 3. Evicted.....                      | 3                       | 2        | 5     | 0                              |
| 4. Remaining on site.....            | 348                     | 164      | 512   | 217                            |

|                                     | Residential | Commercial | Institutional | Total |
|-------------------------------------|-------------|------------|---------------|-------|
| G. Progress in vacating structures: |             |            |               |       |
| 1. Total.....                       | 276         | 94         | 4             | 374   |
| 2. Vacated.....                     | 65          | 35         | 1             | 101   |
| 3. To be vacated.....               | 211         | 59         | 3             | 273   |

<sup>1</sup> 188 white and 92 nonwhite families eligible for unsubsidized housing are included in this figure.  
<sup>2</sup> Total financial assistance as reported by the sponsors.

The undersigned certifies that the relocation activities of the local public agency as reported herein have been carried out in accordance with the relocation plan as approved by the Division.

CHARLES R. CORRINO,  
*Manager.*

SEPTEMBER 30, 1954.

(The following was later received for the record:)

STATEMENT BY MANHATTANTOWN, INC.

At a public hearing held before this committee on October 1, 1954, in the city of New York, testimony was taken concerning the operation of the slum-clearance project at West Park, also known as Manhattantown. This redevelopment site includes an area of six square blocks bounded by 100th Street on the north, Central Park West on the east, 97th Street on the south, and Amsterdam Avenue on the west. This area is being redeveloped by Manhattantown, Inc., a private corporation, under the terms of a redevelopment plan and a contract between it and the city of New York. By this plan Manhattantown, Inc., is obligated to relocate all the families in the six-square-block area, demolish all the existing structures, convey to the city almost one-third of the cleared land for community facilities and street-widening purposes, and construct on the remaining two-thirds multistory, fireproof, apartment buildings containing 2,560 apartments.

At the public hearing on October 1, 1954, counsel for this committee questioned a representative of Manhattantown, Inc., upon various matters, including—

(a) Delay in relocating tenants, demolishing all structures, and constructing new structures at Manhattantown. Incidentally, effort was made to contrast this with Corlears Hook project;

(b) The amount of the legal fee paid by Manhattantown, Inc., to Rosenman, Goldmark, Colin & Kaye, of which Samuel I. Rosenman is a member;

(c) The discrepancy between the architect's fee included in the first FHA application for a mortgage-loan insurance and the Manhattantown, Inc., contract with S. J. Kessler & Sons;

(d) The discrepancy between the builder's fee included in the first FHA application for a mortgage-loan insurance and the contract between Manhattantown, Inc., and Ferman Builders, Inc.; and

(e) Sums paid by Manhattantown, Inc., out of income from the current operation to certain individuals.

With reference to the above items, Manhattantown, Inc., wishes to make the following statement by its president, Jack Ferman.

I. AS TO THE PROGRESS MADE IN THE ADVANCEMENT OF THE MANHATTANTOWN PROJECT

A. *Skidmore Owings progress charts*

The target dates which are set forth in the Skidmore Owings progress charts are not a part of the contract between Manhattantown and the city of New York. These charts were not shown to Manhattantown until months after Manhattantown took over the project area.

The contract between Manhattantown and the city of New York requires that Manhattantown complete the project within 4 years. The contract also states, however, that in the case of enforced delay, due to circumstances stated in paragraph 304 of the contract, the Committee on Slum Clearance Plans of the City of New York could extend the period of time for performance of the sponsor's obligations.<sup>1</sup>

Some of the causes of delay mentioned in said contract under which the sponsor would be entitled to an extension of time for performance are—

1. Any acts, laws, and regulations of the Federal Government or the State of New York including but not limited to controls or restrictions upon or requisitioning of materials, equipment, tools or labor due to war, national defense, or emergency or other unusual conditions;
2. Judicial or other legal restrictions on evictions;
3. Acts of the city of New York;

<sup>1</sup> Time for performance in the contracts of each of the title I projects in New York City is the same, 4 years. Manhattantown, however, has the largest number of families to relocate, the largest number of buildings to demolish, and the largest number of apartments to build.

4. Causes not reasonably foreseen by the parties to this contract at the time of execution of the contract which are beyond the control and without the fault of negligence of the sponsor.

As shown by the contract itself, "causes not reasonably foreseen" was only one of several types of causes of delay which would entitle the sponsor to an extension of time for performance of its obligations.

*B. Present status of relocation and demolition*

As of today the buildings in areas 1 and 2 of the Manhattantown site have been demolished. The buildings in area 3 are now empty and are ready to be demolished. Thus, as of October 8, 1954, 79 buildings are down and 29 additional buildings are ready for demolition. As soon as these last 29 buildings are demolished Manhattantown will have a sufficient land area cleared to construct the first 5 residential buildings in the project. These 5 buildings will contain about 1,000 of the proposed 2,500 apartments in the project, or about 40 percent of the apartments to be contained in the whole project.

*C. Reasons why more of the project area is not now ready for demolition*

1. *Relocation of tenants.*—(a) Rent-control law: Up to the time that Manhattantown took over the area, the only large-scale relocation activity which had been conducted in the city of New York was the clearing of sites by the New York City Housing Authority for the construction of public housing. The city of New York is exempt from the operation of the New York State emergency housing rent laws. Therefore, it can remove tenants from their apartments without first going to the New York State Rent Commission to obtain the necessary certificates of eviction. However, Manhattantown was not so exempt and it was necessary for it to go to the New York State Rent Commission to obtain the necessary certificates.

At the time Manhattantown took possession of the area the regulations issued by the State rent administrator pursuant to the emergency rent laws did not authorize the issuance of certificates of eviction (without which no proceeding for evictions could be brought in the courts) in situations where the proposed demolition was for the purpose of constructing new residential buildings unless the new buildings contained a greater number of housing units than presently existing. One of the basic purposes of the slum clearance program was to reduce the population density in the slum areas—not to increase it. The new dwellings (under the redevelopment plan) in Manhattantown were to contain fewer housing units than the slum dwelling being replaced. By definition, therefore, Manhattantown could not proceed under the existing eviction regulations.

The regulations had to be changed. On June 15, 1953, as the result of conferences and requests made by Manhattantown to the New York State rent administrator the State rent commission adopted amendment 13 to the regulations which amended them in such a manner as would permit Manhattantown to proceed with its relocation and demolition activities. It was only after this amendment had become effective on the above date that Manhattantown was enabled to institute proceedings to remove tenants who refused to accept relocation. Many tenants, up to that time, knowing that Manhattantown lacked effective power to remove them, had refused reasonable relocation offers.

Manhattantown proceeded within 45 days of the effective date of the amended regulation for certificates of eviction which would enable them to petition the courts for orders of eviction where the tenants would not accept reasonable offers of relocation.

Delay was incurred without fault of Manhattantown in the processing of the applications by the State rent commission.

Further delay, again without fault of Manhattantown, was caused when the courts in the city of New York, in granting orders for eviction, conditioned their decisions upon further delay in the execution of a warrant of eviction.

In some cases Manhattantown, although it exercised due diligence, was not able to obtain possession of an apartment up to 7 months from the date it instituted proceedings before the rent commission. As a matter of good will and to comply with its contractual obligations, proceedings to evict tenants were not, as a usual rule, instituted unless the tenant had turned down Manhattantown's offers for relocation.

The delay thus incurred was certainly an excusable delay pursuant to the second cause of delay set forth in paragraph 304 of the contract. The delay carried well into the latter part of 1953 and into the first part of 1954.

The contract did not require that this delay be an unforeseen one.

(b) Litigation against proceeding with the project—*Hunter v. City of New York*: Any attempt by Manhattantown to carry out extensive relocation on a voluntary basis prior to the change in the regulations as stated before was blocked by the institution in November of 1952 of a lawsuit brought by a number of tenants in three of the slum-clearance sites (including Manhattantown but not Corlears Hook) on behalf of themselves and on behalf of others similarly situated to enjoin the city of New York and the slum-clearance sponsors (including Manhattantown) from "performing, giving effect to, or proceeding, in any manner, shape, or form, so as to perform or give effect to any term or terms of a redevelopment contract existing between the city of New York and Manhattantown, Inc."

Manhattantown and the other defendants answered and moved promptly to dismiss the action.

On March 13, 1953, an order was entered denying the request for an injunction and dismissing the complaint. The tenants had an additional 30 days within which to appeal the decision. They did not appeal. Thus it was not until the middle of April of 1953 that Manhattantown could seriously undertake even voluntary relocation.

While the pendency of the suit did not constitute a judicial restriction on evictions, the institution of the suit was certainly unforeseen and it would have been hazardous and irresponsible for Manhattantown then to proceed with a relocation program while the suit was pending. Indeed, if it had attempted to initiate such a program while suit was pending, it might have given cause for the issuance of a temporary restraining order because the issue before the court was the legality of the entire program.

While the action was pending Manhattantown and the city relocation officials did, however, interview the residents in the area so that they would be in a position to proceed should the court permit the program to continue.

2. *Investigations by HHPA and Senate Banking and Currency Committee.*—As soon as the danger that the program would be enjoined by the courts had passed and the regulations of the State rent commission had been amended so that the sponsor could ask the State rent commission for certificates to proceed in the courts to remove tenants who refuse to be relocated, Manhattantown proceeded to clear the buildings in the first three areas of its project site.

By the spring of 1954, Manhattantown had made a great deal of progress in clearing areas 1, 2, and 3 of tenants. At that time, i. e., the spring of 1954, there visited Manhattantown first the auditors and the inspectors of the Housing and Home Finance Agency and then the auditors and investigators of this committee. Relocation and demolition activities had had sufficient momentum to carry through the spring and summer of this year. As of October 8, 1954, 79 buildings have been cleared and demolished. Twenty-nine additional buildings have been cleared and are ready for demolition.

One thousand one hundred and seventy-nine apartments in which lived 1,388 families have been cleared.

Manhattantown, as of October 1954, has relocated almost twice as many families as were contained in the entire project site at Corlears Hook. That area contained only 718 families living in 47 buildings.

Relocation and demolition have been at a standstill for some weeks. Messrs. Caspert and Silver, in charge of operations and relocation, respectively, have been engaged in appearing before this committee, each having appeared 3 or 4 times at public and/or private hearings in which they were required to search their memories and their papers to shed light on events which occurred 3 and 4 years ago.

Invitations to bid for the wrecking job on area 3 to demolish the 29 buildings now standing empty and ready for demolition have received no response. The wreckers who performed the work in areas 1 and 2 were called before the investigators of this committee and interrogated as to how they obtained the wrecking contract. Under these circumstances, wreckers would just as soon take jobs other than those which would require their appearance before a Senate committee.

The inability of the work to progress because of the investigation was certainly unforeseen by the parties to the contract.

3. *Delay in FHA financing.*—From the outset, it was generally understood that this was a novel type of project and it would thus be necessary for FHA to insure the mortgage loans for the construction of the new buildings. The Housing and Home Finance Agency which is charged with carrying out title I of the Housing Act of 1949 is also the parent agency of the FHA.

After the areas had been defined, Manhattantown met with FHA representatives in New York as early as May of 1953 preparatory to filing its first application. The reaction of the New York office was that it would not approve slum sites in New York City for FHA loans.

At a later time, the local office said that they would process an application, but that it would be necessary for Manhattantown to obtain a priority. Manhattantown requested such a priority and received one. Plans for the project were submitted to the FHA in July of 1953. The FHA local office in New York then stated that because they would consider the area as a slum area a shorter economic life would be ascribed to the new buildings. This would decrease the amortization period and consequently increase the yearly carrying charges to an extent which would make the renting of the apartments difficult.

In September of 1953, the FHA local office in New York informed Commissioner Moses of the New York City Committee on Slum Clearance Plans that a temporary freeze which had existed on the processing of slum-clearance applications had been lifted. In November of 1953, Commissioner Moses wrote to Mr. Cole, the Federal Housing Administrator, and told him that slum-clearance projects were being held up by the FHA's slowness in acting.

It was not until late in December of 1953 that the FHA agreed to accept an application from Manhattantown. Such application was filed in December of 1953.

Early in 1954, the Housing bill of 1954 was passed by the House and was pending in the Senate. This bill included provisions for slum-clearance projects. The investigation by this committee caused the Senate to delay passage until very recently and, as a result, the FHA has not to this date formulated regulations under the new act giving effect to the slum-clearance provisions. Application forms for mortgage loan insurance under section 220—the slum-clearance provisions of the act—are not available at the local office in New York.

#### II. RETAINER AGREEMENT WITH ROSENMAN GOLDMARK COLIN & KAYE AS COUNSEL FOR MANHATTANTOWN, INC.

Rosenman Goldmark Colin & Kaye was retained by Manhattantown after the latter had acquired title to the slum area from the city of New York and over 4 months after the contract between Manhattantown and the city of New York was executed.

Rosenman Goldmark Colin & Kaye has a retainer agreement to perform legal services for Manhattantown, Inc., from October 1, 1952, until September 30, 1960. Originally, the retainer was to run for 6 years, but at the request of Manhattantown it was reduced in annual amount and extended to 8 years with the total amount of payment for the 8 years remaining the same as for the 6 years. The committee has been provided with copies of the original and revised retainer agreements.

Rosenman Goldmark Colin & Kaye has performed services in connection with Manhattantown's litigations, real estate tax questions, rent control problems and like matters.

Rosenman Goldmark Colin & Kaye has had no dealings with FHA or with HHFA on behalf of Manhattantown.

Rosenman Goldmark Colin & Kaye has not received \$250,000 in fees from Manhattantown as was mistakenly stated in one of the press reports of the public hearing of October 1, 1954.

Manhattantown has been informed by Rosenman Goldmark Colin & Kaye that as of October 8, 1954, the attorneys of that firm (partners and associates) have spent in excess of 3,350 hours in performing services for Manhattantown. For those services Rosenman Goldmark Colin & Kaye has to date been paid \$67,500 by Manhattantown. Manhattantown has been further informed by Rosenman Goldmark Colin & Kaye that said sum is less than the amount called for by Rosenman Goldmark Colin & Kaye's usual hourly rates for the number of hours of services actually performed.

#### III. 5 PERCENT FEES IN THE FHA MORTGAGE LOAN APPLICATION FOR BUILDER AND ARCHITECT

In December of 1953, an application for mortgage loan insurance was submitted to the FHA for the first residential building to be constructed on a portion of the Manhattantown area which had been cleared of dwellings. This application listed Manhattantown's estimated costs of construction. Among other

things, there were included in that list items for a builder's fee and for an architect's fee. The estimated costs for the builder's fee was stated to be 5 percent of the cost of construction. The estimated costs for architect's fees was also stated to be 5 percent of the cost of construction.

At the public hearing on October 1, 1954, reference was made to the fact that Manhattantown had a contract with Ferman Builders, Inc., to perform services for 1 percent of cost and a contract with S. J. Kessler & Sons, architects, for 1¼ percent of cost. Copies of these contracts had been previously submitted to the committee by Manhattantown. The inference at the public hearing was that Manhattantown's December 1953 application to the FHA should have listed the builder's fee at 1 percent of cost and the architect's fee at 1¼ percent of cost rather than at 5 percent each because of said contracts.

The fact is, however, that the fees set forth in Manhattantown's application were entirely proper.

*(a) As to the builder's fee*

The contract between Manhattantown and Ferman Builders provides for supervisory services only. It does not cover all the services which a builder usually supplies. The reason for this is that the Ferman Builders' contract is only 1 percent with a top limit of \$275,000, whereas the normal builder's fee is 5 percent.

When the builder's fee is fixed at 5 percent, it covers not only supervisory services (such as the Ferman Builders' contract covers), but also the following which the builder pays at his own expense:

1. The salaries of resident superintendents, expeditors, estimators, engineers, foremen, timekeepers, checkers, detailmen, watchmen, and other residential labor necessary in connection with the project.
2. The erection of field offices and shanties and providing the equipment thereof.
3. Procurement of necessary permits required by all departments having jurisdiction from the inception of the work through to completion, including certificates of occupancy.
4. Tools, supplies, gas, electricity, telephone, photostats, blue prints, transits, and stationery.
5. Rental of miscellaneous equipment such as pumps and hoses.
6. Transportation.
7. Insurance and taxes in connection with the above.

The contract between Manhattantown and Ferman Builders for a 1 percent fee naturally does not require Ferman Builders to pay for the above items. Manhattantown itself will have to pay these builder's costs.

Manhattantown, in its application to the FHA, thus estimated builder's fees at 5 percent of construction costs because its contract with Ferman Builders for 1 percent did not cover all the services and costs which normally are covered by a builder's fee of 5 percent.

*(b) As to the architect's fee*

Manhattantown has entered into a contract with S. J. Kessler & Sons whereby the latter is to provide the architectural work for the entire project at a fee of 1¼ percent of the cost of the work. However, the contract provides that Manhattantown must pay Kessler certain stipulated sums on the completion of specified work, the payments ultimately to be charged against their total fee for the project. Manhattantown, by contract, thus must pay Kessler:

|   |                 |
|---|-----------------|
| For preliminary building plans and site plans.....  | \$9, 000        |
| For sketch floor plans for the buildings.....   | 15, 000         |
| For drawings, architectural, structural, mechanical, and site plans ready<br>for filing with FHA..... | 30, 000         |
| When complete plans have been approved by FHA.....  | 50, 000         |
| <b>Total.....</b>   | <b>104, 000</b> |

Thus, before construction on the first building gets under way, Manhattantown must pay its architect the sum of \$104,000 for work covering the entire project area. It is to be noted in this connection that the FHA has taken the position that it will not approve an application for the first building on a site unless plans for the entire site are first submitted to and approved by it.

Manhattantown included in its application to the FHA a figure for architect's fees which would approximate the \$104,000 it had already obligated itself to

pay in order to make the construction of the first building (with reference to which a loan was being sought) possible. The maximum amount permitted by the FHA for architect's fees was 5 percent of the estimated costs. In this case the 5 percent of the estimated costs amounted to \$90,000. As a consequence Manhattantown's application specified that the estimated architect's fee would be 5 percent of costs.

Furthermore, it is to be noted that the Kessler fee of  $11\frac{1}{4}$  percent did not include any extra work which would have to be done if the plans for the building were ordered changed by any of the city's agencies to comply with changes in the laws or regulations. That fee also did not cover architectural services required for certain steel detailing and other work which, according to the custom in the trade, are usually handled by outside architects. It is therefore submitted that Manhattantown's application quite properly estimated builder's and architect's fees for a total of 10 percent.

*(c) Practice of permitting a total of 10 percent for builder and architect fees*

In the past, the FHA, under its regulations, has permitted the inclusion in the statement of estimated costs of construction a builder's fee of 5 percent and an architect's fee of 5 percent. That such fees, totaling 10 percent for builder's and architect's services, are reasonable, was recognized by this committee in its report No. 1472 of the Housing Act of 1954. The report states at pages 4626 and 4627 of the United States Code Congressional and Administrative News:

"All appropriate expenditures, could be included in the actual costs which are certified by the mortgagor under this section. These would include the actual cost to the mortgagor of construction, including amounts paid for labor, materials, construction contracts, offsite public utilities, streets, organizational, and legal expenses; and other items of expense approved by the Federal Housing Commissioner, including a reasonable allowance for builder's profit if the mortgagor is also the builder as defined by the Commissioner. As a guide to the Commissioner in establishing this allowance, your committee wishes to express the view that this amount should not exceed 10 percent of the other costs of the job."

IV. TESTIMONY OF HERBERT LARSEN, ACCOUNTANT FOR THE COMMITTEE, AS TO PAYMENTS BY MANHATTANTOWN TO CERTAIN INDIVIDUALS

At the hearing on October 1, 1954, Mr. Larsen, an employee of the General Accounting Office, gave testimony relating to certain charts which he had compiled from the books of Manhattantown, Inc., John L. Hennessy & Co. (Manhattantown division), and Apartment Equipment Rental Co.

Mr. Larsen testified that the charts contained, among other things, the salaries and contract income of stockholders of Manhattantown (including equitable interest holders) and their relatives. The charts which were submitted as exhibits contradicted Mr. Larsen's testimony to some extent.

Mr. Larsen testified that the salaries totaled \$221,637.59 and that the contract fees totaled approximately \$190,000. The exhibits showed the first item at \$212,017.87 and the second item at \$142,111.07

The moneys paid by Manhattantown to its investors were for services rendered by them in operating and maintaining the present six-square-block area and in planning the future construction of the new buildings. This work had to be done by someone. Someone had to do the auditing work; someone had to run relocation; someone had to collect the rents; someone had to be the architects; someone had to be the builder; someone had to run the maintenance department. Therefore substantial sums of money had to be paid to someone for these services.

The fact that the services were performed by persons or relatives of persons who were also investors in Manhattantown is immaterial. The past business and experience of many of these investors qualified them for exactly what they were doing for Manhattantown.

It has also been charged that the sums received by the investors, etc., were roughly proportionate to the sum invested by each of them.

The fact is that 13 of the investors in Manhattantown have received no moneys from Manhattantown.

STATE OF NEW YORK,  
County of New York, ss:

JACK FERMAN, being duly sworn, deposes and says that he is the president of Manhattantown, Inc., the corporation which has made the foregoing statement; that he has read the foregoing statement and knows the contents thereof and the same is true to his own knowledge, except as to the matters stated to be upon information, and as to those matters he believes it to be true.

Deponent further states that the foregoing statement was prepared and is submitted to the Senate Committee on Banking and Currency, to be included upon the committee's approval as part of the public record in lieu of oral testimony before the committee by him.

The foregoing statement is hereby sworn to as stated above and shall be deemed to have the full force and effect of a sworn statement made at a regular public hearing of the Senate Committee on Banking and Currency.

JACK FERMAN.

Sworn to before me this 11th day of October 1954.

ANTHONY GAGLIANO,  
Notary Public, State of New York.

Commission expires March 30, 1955.

Mr. ROSENMAN. This document will show we met every single charge made by the women's city club.

Senator BUSH. I think you are entitled to that.

Mr. ROSENMAN. I think you realize the dilemma we are in, with somebody saying we are moving them out too fast, and the staff saying we aren't moving them out fast enough.

Senator BUSH. We realize we are in a real dilemma as to the whole thing.

The committee will be in recess until 2 o'clock.

(Whereupon, at 12:25 p. m., a recess was taken until 2 p. m., of the same day.)

#### AFTERNOON SESSION

Senator BUSH. The committee will come to order, please.

Is Mr. Abraham E. Kazan here?

Will you come forward, please?

Will you raise your right hand:

Do you solemnly swear that the testimony which you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KAZAN. I do.

#### TESTIMONY OF ABRAHAM E. KAZAN, CORLEARS HOOK, NEW YORK, PROJECT

Senator BUSH. Please be seated and give your correct name to the clerk.

Mr. KAZAN. Abraham E. Kazan. I reside at 130 Gale Place, Bronx, N. Y.

Senator BUSH. Mr. Simon.

Mr. SIMON. Mr. Kazan, you are the manager of the Corlears Hook slum-clearance project, are you?

Mr. KAZAN. I am.

Mr. SIMON. Is that being undertaken by a corporation known as the East River Housing Co.?

Mr. KAZAN. East River Housing Corp.

Mr. SIMON. East River Housing Corp.?

Mr. KAZAN. Yes.

Mr. SIMON. And you are the salaried head of that corporation?

Mr. KAZAN. I am the president and the manager of the project.

Mr. SIMON. And who owns the stock of the company?

Mr. KAZAN. At this time there are 3 stockholders, each holding 1 share of stock. The 3 are Robert Szold, Frederick Unhui, and myself.

Mr. SIMON. Do you hold that stock in trust for the Ladies Garment Workers Union?

Mr. KAZAN. No. We are holding the stock in trust for the future cooperators or tenants of the project.

Mr. SIMON. Who contracted to purchase the land from the city?

Mr. KAZAN. The East River Housing Corp.

Mr. SIMON. And what was the price they agreed to pay for the land?

Mr. KAZAN. We agreed to pay \$1,049,000, and this figured at \$2 per square foot.

Mr. SIMON. That was the estimated value of the raw land, excluding the improvements that were previously on the land?

Mr. KAZAN. That is right.

Mr. SIMON. The cost to the city of acquiring the land, with the former improvements, was \$3,351,420?

Mr. KAZAN. I don't remember the figure, but if you have that figure it must be right.

Mr. SIMON. That is approximately \$6 a square foot?

Mr. KAZAN. Yes.

Mr. SIMON. When did you sign your contract with the city?

Mr. KAZAN. Some time in May of 1952.

Mr. SIMON. That was the same month that the Manhattantown project contract was signed?

Mr. KAZAN. Right.

Mr. SIMON. Were you here this morning, Mr. Kazan?

Mr. KAZAN. I was.

Mr. SIMON. You heard the testimony as to the character of the contract between Manhattantown and the city of New York?

Mr. KAZAN. Yes.

Mr. SIMON. Is your contract similar?

Mr. KAZAN. Right.

Mr. SIMON. And you had 4 years to demolish your old buildings and build the new ones?

Mr. KAZAN. Exactly.

Mr. SIMON. How far along have you gone on demolishing the old buildings?

Mr. KAZAN. All the buildings that are in the way of construction have been demolished. There are about six buildings on the fringe of the project that are still in operation, or have not been demolished.

Mr. SIMON. Do you intend to demolish them?

Mr. KAZAN. Yes, as soon as the new buildings are completed because some of the tenants living in these buildings have come back to the project.

Mr. SIMON. But the land on which those buildings are situated is not to be utilized in your new program; is that right?

Mr. KAZAN. It is to be utilized for a parking area, for other activities there.

Mr. SIMON. But all the lands on which you are going to build have been demolished?

Mr. KAZAN. That is right.

Mr. SIMON. When did you complete that demolition?

Mr. KAZAN. We started immediately after taking title, and we are continuing until this date to demolish. In fact, we are doing some demolition work at this time. We have a triangular block which is going to be used for commercial purposes. We did not rush to demolish those buildings until about a week ago.

Mr. SIMON. When had you completed the demolition of the buildings on which new residential properties are to be built?

Mr. KAZAN. About 8 months ago.

Mr. SIMON. About 8 months ago?

Mr. KAZAN. That is right.

Mr. SIMON. When did you start to construct the new buildings?

Mr. KAZAN. In March of 1954.

Mr. SIMON. In March of 1954?

Mr. KAZAN. Yes.

Mr. SIMON. How many apartment units will there be in the new buildings?

Mr. KAZAN. 1,668.

Mr. SIMON. And are those going to be sold to the future occupants on a cooperative basis?

Mr. KAZAN. Right.

Mr. SIMON. And they will then become the stockholders in this East River Corp., of which there are now only three shares outstanding?

Mr. KAZAN. Yes.

Mr. SIMON. The project had approximately how many families living on it at the time you acquired it?

Mr. KAZAN. 878.

Mr. SIMON. And were all of those 878 families relocated?

Mr. KAZAN. With the exception of about 135, half of whom will come back to the new project, and the other half have to be relocated.

Mr. SIMON. Did you have any unusual difficulties in relocating the 743 that were relocated?

Mr. KAZAN. Well, the usual difficulties. A good many of them went to the city housing projects. The others were relocated by the corporation.

Mr. SIMON. By your corporation?

Mr. KAZAN. Yes.

Mr. SIMON. Did difficulties in relocation delay the demolition of the buildings?

Mr. KAZAN. In part, I would say yes, but you couldn't expect any better result or any better methods. As we vacated the buildings we demolished the building.

Mr. SIMON. In spite of whatever delays you had because of relocation, you still demolished all the buildings on the land on which you intend to build housing families within about a year and a half?

Mr. KAZAN. Right.

Mr. SIMON. The new buildings that are being built, how far along are they?

Mr. KAZAN. Building No. 1, there are 4 buildings in total. Building No. 1 is on the second story. It is a reinforced-concrete building, and they are pouring concrete on the second story.

Building No. 2, concrete is being poured on the first slab.

Building No. 3, the foundations are completed, and building No. 4, they are just pouring concrete or completing the pile cap, as you call them.

Mr. SIMON. The price you had to pay the city for the raw land, did you pay one-third of it, or did you pay the full purchase price?

Mr. KAZAN. We paid the entire amount.

Mr. SIMON. You didn't asked them to give you an extended period to pay two-thirds of it?

Mr. KAZAN. No. We paid 50 percent immediately after taking title, and the other 50 percent about 5 or 6 months afterward. We didn't want to pay interest on the money that we owed the city.

Mr. SIMON. So you paid the whole thing?

Mr. KAZAN. That is right.

Mr. SIMON. As I understand it, the new buildings are being built without Government financing; is that right?

Mr. KAZAN. The buildings are being built without Government financing, although we lost about 8 months' time in our attempt to get Government financing.

Mr. SIMON. When did you file your application with FHA?

Mr. KAZAN. The application was formally filed on December 19, 1953, and I got a commitment at the end of 19—in 1952, I am sorry.

Mr. SIMON. You filed it December 15, 1952?

Mr. KAZAN. December 19, 1952. We got a commitment at the end of 1953, but I couldn't use the commitment.

Mr. SIMON. Because it was too high?

Mr. KAZAN. The conditions imposed on us were impossible for us to comply with.

Mr. SIMON. Now, what did you estimate to be the cost of constructing these new buildings?

Mr. KAZAN. We estimated our cost, including the shopping center, to be \$19,100,000 in round figures.

Mr. SIMON. How big a mortgage did you ask FHA to insure on the residential properties?

Mr. KAZAN. FHA finally approved a loan of \$14,638,000.

Mr. SIMON. How did that compare with your estimate of what that would cost?

Mr. KAZAN. That would have been sufficient to complete the job, except that the FHA authorities insisted that we must provide \$7 million in cash over and above the mortgage in order to go out for the job.

Mr. SIMON. Is that because they insisted your costs were going to be \$20 million?

Mr. KAZAN. They insisted the costs would be higher than what the estimated costs were, or what we have proven to them by contracts that the costs would be.

Mr. SIMON. You had contracts with subcontractors to build this building at a figure which would total about 14 to 15 million dollars for the completed project; is that right?

Mr. KAZAN. Right.

Mr. SIMON. And FHA told you it would cost you more than \$20 million?

Mr. KAZAN. That is right.

Mr. SIMON. Do you have any reason or do you have any knowledge why FHA insisted it was going to cost you more than the actual

amount that the contractors had agreed with you to build the building for?

Mr. KAZAN. I don't know why they estimated that high, but the fact is they did estimate that the project would cost more than we estimated.

In November of 1953, I submitted to them all, or most of the contracts that I had signed with subcontracts, to prove to them that \$16,100,000 is all that we need. However, that did not satisfy the FHA people.

Mr. SIMON. Do you know whether their computation of this much higher cost resulted from their normal, usual methods of computing costs?

Mr. KAZAN. Evidently it did.

Mr. SIMON. But you had firm contracts that were about two-thirds of that amount?

Mr. KAZAN. That is right.

Mr. SIMON. And as a result of the disagreement you had with them on how much it was going to cost to build the building you have gone ahead without Government financing?

Mr. KAZAN. Right.

Mr. SIMON. When do you contemplate the buildings will be finished, Mr. Kazan?

Mr. KAZAN. The first building should be completed by July 1955, and the other buildings will follow about a month apart.

Mr. SIMON. Do you think they will be finished, then, by the end of 1955?

Mr. KAZAN. Yes, sir.

Mr. SIMON. That will be well ahead, or at least 5 or 6 months ahead of the 4-year period provided for in your contract with the city?

Mr. KAZAN. Yes.

Mr. SIMON. Is that right?

Mr. KAZAN. That is right.

Mr. SIMON. Mr. Kazan, I believe you have some views on how FHA should operate that might be helpful to the committee. Would you be so good as to give them to us?

Mr. KAZAN. Well, my opinion is that the FHA, as set up, protects the bank rather than the individual consumer, or helps the bank rather than the individual tenant. Up to the time no FHA was in existence, or no FHA guaranties were available, the banks were careful in making their loans and had to supervise construction, and would not approve a loan where the rentals did not justify in a particular neighborhood. But with the FHA in the picture the banks are not very much interested as to what type of a building you are erecting. As long as they get the insurance you can build a chicken coop instead of a good house, and that is very bad.

On the other hand, housing is very badly needed, and you can't blame the poor devil that has no home or no place to live, when he agrees to pay the rental that is imposed upon him.

In my opinion, if the FHA would restrict its insurance to that part of the mortgage over and above that permitted by the State banking department, and shifting the regulation or supervision of the construction back to the institution that makes the loan it would help a great deal.

Mr. SIMON. By "help a great deal," you mean the projects would be on a sounder basis?

Mr. KAZAN. That is right.

Mr. SIMON. You are quoted, Mr. Kazan, in one of the newspapers as having said, and I quote from what the newspaper quotes you as having said:

In a general way, housing should be taken out of the hands of government. It should help people who want to build, but government shouldn't be in the housing business.

Is that accurately expressed?

Mr. KAZAN. That is accurate. That is my contention.

Mr. SIMON. Then this goes on to say; but no longer quoting you:

He feels his own experience with the FHA, when he was getting the Corlears project started, is typical. This agency wanted to figure 20 percent more for expenses than he knew it should cost.

That is what you said a moment ago?

Mr. KAZAN. Not expenses. You mean the construction costs, 20 percent more on the construction cost.

Mr. SIMON. It says expenses here, but I understand you.

Thank you.

Senator BUSH. We certainly thank you very much. That is a very interesting testimony you have given, and we appreciate very much your cooperation with this committee.

Thank you.

Mr. Edward Dwyer.

Will you raise your right hand, please, Mr. Dwyer:

Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF EDWARD A. DWYER, WATSON BOULEVARD APARTMENTS, BINGHAMTON, N. Y., ETC.

Mr. DWYER. I do.

Senator BUSH. Please be seated.

Will you give your correct name and address to the clerk, please?

Mr. DWYER. Edward A. Dwyer, 14 Zane Road, Binghamton, N. Y.

Senator BUSH. Mr. Simon.

Mr. SIMON. 14 Zane—

Mr. DWYER. Zane, Z-a-n-e.

Mr. SIMON. Zane Road, Binghamton, N. Y.?

Mr. DWYER. Yes.

Mr. SIMON. Were you formerly employed by the Federal Housing Administration, Mr. Dwyer?

Mr. DWYER. I was.

Mr. SIMON. During what period of time?

Mr. DWYER. From 1937 to 1952.

Mr. SIMON. What was your position?

Mr. DWYER. Valuator in the Binghamton office.

Mr. SIMON. Were you in the Binghamton office during the entire 15 years you were with the FHA?

Mr. DWYER. I might have worked for shorter periods out of Binghamton, sometimes in Rochester or Buffalo, but not for over a week at a time.

- Mr. SIMON. Do you know a man named Corcoran?
- Mr. DWYER. Yes.
- Mr. SIMON. Do you know a man named Edwards?
- Mr. DWYER. Yes.
- Mr. SIMON. That is Leonard R. Corcoran and Wayne E. Edwards?
- Mr. DWYER. Yes, sir.
- Mr. SIMON. In 1947 did you have any discussions with Mr. Corcoran and Mr. Edwards about a section 608 project?
- Mr. DWYER. I think it was later than that.
- Mr. SIMON. 1948?
- Mr. DWYER. I think it was 1948 or 1949; 1948, I believe.
- Mr. SIMON. Do you recall what time of the year it might have been?
- Mr. DWYER. No, I don't.
- Mr. SIMON. Do you recall where the discussions, the first discussions, took place?
- Mr. DWYER. In Binghamton.
- Mr. SIMON. Do you recall where? Was it in your home or in your office?
- Mr. DWYER. I don't remember that.
- Mr. SIMON. Had you had any previous business dealings with either Corcoran or Edwards?
- Mr. DWYER. Well, Corcoran was a mortgage broker.
- Mr. SIMON. What was Edwards' business?
- Mr. DWYER. He was a contractor.
- Mr. SIMON. Had they both done business with FHA?
- Mr. DWYER. Yes.
- Mr. SIMON. Was their business such that a substantial part of their business was with FHA?
- Mr. DWYER. I don't believe Corcoran's business was.
- Mr. SIMON. Did you say he was a mortgage banker.
- Mr. DWYER. Mortgage broker.
- Mr. SIMON. Did he act as broker on mortgages that were insured by FHA?
- Mr. DWYER. Not so much on residential work, no. Later he got into that.
- Mr. SIMON. In 1948 did the three of you decide to build a section 608?
- Mr. DWYER. Yes, we did.
- Mr. SIMON. Were each of you going to own one-third of the stock?
- Mr. DWYER. That is right.
- Mr. SIMON. Did you incorporate, or was there incorporated a company to build the project?
- Mr. DWYER. Yes.
- Mr. SIMON. What was the name of that corporation?
- Mr. DWYER. Watson Boulevard Apartments, I believe.
- Mr. SIMON. When was that company incorporated?
- Mr. DWYER. I think it was 1948.
- Mr. SIMON. Did you draw the plans for that project?
- Mr. DWYER. I drew the preliminary plans.
- Mr. SIMON. And they were later submitted to FHA for approval?
- Mr. DWYER. That is right.
- Mr. SIMON. Were they approved by FHA?
- Mr. DWYER. No. There was a right-of-way across the property that made it necessary to redraw the plans.

Mr. SIMON. Who redrew them?

Mr. DWYER. Ward & Moore.

Mr. SIMON. Ward & Moore. Were they paid for redrawing them?

Mr. DWYER. Yes.

Mr. SIMON. How much were they paid?

Mr. DWYER. I don't have the amounts.

Mr. SIMON. What was the capital stock of the Watson Boulevard Apartments?

Mr. DWYER. Do you mean how much did we each invest?

Mr. SIMON. How much stock? What was the total stock, first?

Mr. DWYER. I don't know that.

Mr. SIMON. Was it 30 shares?

Mr. DWYER. We each owned a third of it. I don't know what the total amount was.

Mr. SIMON. Wasn't it 30 shares and you each had 10 shares?

Mr. DWYER. It is probable.

Mr. SIMON. How much did you pay for your 10 shares?

Mr. DWYER. \$1,000.

Mr. SIMON. Did you each pay \$1,000?

Mr. DWYER. Yes.

Mr. SIMON. Then the total capital stock would have been \$3,000; is that right?

Mr. DWYER. That is right.

Mr. SIMON. How big a mortgage did you get out of the FHA?

Mr. DWYER. Three-hundred-and-forty-thousand-some-odd dollars.

Mr. SIMON. Who built the building?

Mr. DWYER. Wayne Edwards.

Mr. SIMON. Wayne Edwards?

Mr. DWYER. Yes.

Mr. SIMON. What was the actual cost of construction of the building?

Mr. DWYER. I don't know that.

Mr. SIMON. After paying the cost of construction and the cost of the land and the carrying charges, how much money did you have left out of the mortgage proceeds?

Mr. DWYER. I don't have accurate figures on that. I have no books.

Mr. SIMON. What is your best recollection of how much was left over?

Mr. DWYER. I would think about \$14,000.

Mr. SIMON. About \$14,000. What was done with that \$14,000?

Mr. DWYER. That was divided between the contractor and myself.

Mr. SIMON. You got approximately \$7,000 of it?

Mr. DWYER. I got \$6,000 at one time. I think I got \$6,800.

Mr. SIMON. \$6,800. And—

Mr. DWYER. I think the contractor got the same amount.

Mr. SIMON. Why didn't Corcoran get his?

Mr. DWYER. He collected the mortgage premium.

Mr. SIMON. He got the premium?

Mr. DWYER. Yes.

Mr. SIMON. How much was the premium?

Mr. DWYER. I don't know that. I think it was about the same amount.

Mr. SIMON. So that out of the total mortgage proceeds, each of the three of you got about \$7,000?

Mr. DWYER. That is right.

Mr. SIMON. Is that right?

Mr. DWYER. Right.

Mr. SIMON. Did you later sell this building?

Mr. DWYER. Yes.

Mr. SIMON. What did you get for it when you sold it?

Mr. DWYER. \$25,000.

Mr. SIMON. You got a third of that?

Mr. DWYER. Yes.

Mr. SIMON. And that is about \$8,000, in addition to the \$6,800 that you got out of the mortgage money; is that right?

Mr. DWYER. That is right.

Mr. SIMON. Now there was a second project called Chapel Courts, was there?

Mr. DWYER. Chapin.

Mr. SIMON. How do you spell that?

Mr. DWYER. C-h-a-p-i-n.

Mr. SIMON. What was the capital stock of Chapin Courts?

Mr. DWYER. That was the same arrangement. We each owned a third of that.

Mr. SIMON. There were 30 shares and you each had 10 and you each put up \$1,000?

Mr. DWYER. I presume so. No. We put up more money on that.

Mr. SIMON. How much did you put up?

Mr. DWYER. Between the three of us, I think we put up \$16,000.

Mr. SIMON. How much did you put up?

Mr. DWYER. One-third of it.

Mr. SIMON. You actually put up \$5,000?

Mr. DWYER. Yes. We borrowed that money from the bank.

Mr. SIMON. You borrowed it all from the bank?

Mr. DWYER. On notes, and paid them back.

Mr. SIMON. Paid them back out of the mortgage money?

Mr. DWYER. Partially.

Mr. SIMON. How much was the mortgage commitment there?

Mr. DWYER. I am not sure of that amount. I think it was around \$144,000.

Mr. SIMON. Did you draw the plans for this job?

Mr. DWYER. Yes.

Mr. SIMON. Were the plans you drew approved by FHA?

Mr. DWYER. Yes.

Mr. SIMON. Did you in any way participate in the approval of the plans?

Mr. DWYER. No.

Mr. SIMON. As chief valuator, you had to approve the project, didn't you?

Mr. DWYER. I wasn't chief valuator.

Mr. SIMON. What were you?

Mr. DWYER. I was a valuator in the Binghamton office. I didn't process rental-housing projects.

Mr. SIMON. Where were these processed?

Mr. DWYER. Buffalo.

Mr. SIMON. Who built this building?

Mr. DWYER. Wayne Edwards.

Mr. SIMON. What was the cost of building it?

Mr. DWYER. I don't know that.

Mr. SIMON. How much of the mortgage proceeds was left over after paying the cost of the land and building?

Mr. DWYER. There wasn't any left over. That one cost more than the amount of the mortgage.

Mr. SIMON. How much more?

Mr. DWYER. I think around \$16,000.

Mr. SIMON. That is the \$16,000 you borrowed from the bank?

Mr. DWYER. That is right.

Mr. SIMON. I have before me, Mr. Dwyer, a Federal Housing Administration form headed "Appraisal data and project information," and at the top it says, "Date 5-16-49," and gives the project number.

It says—

Name of project, Chapin Court Apartments, North and Chapin Streets, Binghamton, N. Y.

Is that the project?

Mr. DWYER. That is it.

Mr. SIMON. Then there is a lot of information here that has not been filled out, appraisals and area space, and the appraised value of the land per parcel, etc., and it ends up by being signed by "Edward A. Dwyer, valuator."

Is that your signature?

Mr. DWYER. Yes, sir.

Mr. SIMON. Did you sign that document?

Mr. DWYER. Yes, sir.

Mr. SIMON. Would you read to the committee, please, the paragraph appearing immediately above your signature?

Mr. DWYER (reading):

I have examined the proposed site and have analyzed all the pertinent information contained therewith. I have no personal interest, present or prospective, in the property of the applicant or the proceeds of the mortgage.

Mr. SIMON. That wasn't true; was it?

Mr. DWYER. No.

Mr. SIMON. Did you subsequently sell that property?

Mr. DWYER. Yes.

Mr. SIMON. And how much did you sell it for?

Mr. DWYER. I think that sold for 25.

Mr. SIMON. You got a third of that?

Mr. DWYER. There was some escrow money involved in that, too, that brought the total to, I think \$29,000.

Mr. SIMON. You got a third of it?

Mr. DWYER. A third of it.

Mr. SIMON. Did you also get some land in connection with this project.

Mr. DWYER. Yes, some land in Ithaca.

Mr. SIMON. In connection with the sale?

Mr. DWYER. Not with the sale of that. These two properties were sold at the same time.

Mr. SIMON. How did you get the land?

Mr. DWYER. Corcoran and I bought out Edwards, the other. We bought his third.

Mr. SIMON. Yes. How did you end up getting the land?

Mr. DWYER. We paid Edwards \$10,000. Each of us paid Edwards \$10,000 for his half of the interest in the two projects.

Mr. SIMON. How did you get the land?

Mr. DWYER. Then we assumed \$16,000 worth of liens that we paid off, and he took a gas station that was on the property in Ithaca, and turned the vacant land over to us. The land was later sold for \$12,000.

Mr. SIMON. He gave you the vacant land in Ithaca?

Mr. DWYER. And he took the gas station.

Mr. SIMON. Why did he give you the land? Who owned that land?

Mr. DWYER. The three of us owned it together. That was part of the arrangement for his selling his third.

Mr. SIMON. Had the three of you purchased the land?

Mr. DWYER. Yes. We had already owned the land.

Mr. SIMON. How much did you put in for buying that land?

Mr. DWYER. I don't remember that.

Mr. SIMON. Was it \$1,000?

Mr. DWYER. In the Ithaca land?

Mr. SIMON. Yes.

Mr. DWYER. I am not sure of that.

Mr. SIMON. Didn't you have just \$1,000 invested in each of these projects?

Mr. DWYER. No. I had \$1,000 invested in Watson Boulevard.

Mr. SIMON. You had \$1,000 invested in Chapin Courts, although the project had borrowed \$16,000 from the bank, which I assume you had to guarantee?

Mr. DWYER. Yes.

Mr. SIMON. The only investment you had other than guaranteeing that loan was \$1,000 in Chapin Courts; is that right?

Mr. DWYER. I don't see that on the record. They only have the \$16,000 here.

Mr. SIMON. I am asking you if it isn't a fact that your only investment in Chapin Courts was \$1,000.

Mr. DWYER. Plus my share of this \$16,000.

Mr. SIMON. Plus your guaranteeing that to the bank?

Mr. DWYER. Yes.

Mr. SIMON. And actually that was paid off without your putting up any money; is that right—paid off out of the property?

Mr. DWYER. Yes, that is right.

Mr. SIMON. The only investment you had in either one of these was a \$1,000 in each of them; is that right?

Mr. DWYER. That is right.

Mr. SIMON. Isn't it also true that the only investment you had in the Ithaca land was \$1,000?

Mr. DWYER. I am not sure of the Ithaca land amount.

Mr. SIMON. You are not sure?

Mr. DWYER. No.

Mr. SIMON. And in April 1951, did your superiors direct you to dispose of your stock in these projects?

Mr. DWYER. On April 5, I went to Buffalo and reported I owned stock in the projects.

Mr. SIMON. Did they direct you to dispose of it?

Mr. DWYER. As soon as possible, yes.

Mr. SIMON. Who did you sell it to?

Mr. DWYER. It was sold to two different firms.

Mr. SIMON. You sold one piece of stock to Flanagan, didn't you?

Mr. DWYER. He wasn't the final purchaser.

Mr. SIMON. No, but I am talking about right then and now. Didn't you sell your stock to Flanagan?

Mr. DWYER. I transferred my stock in both projects to Flanagan.

Mr. SIMON. To Flanagan?

Mr. DWYER. Yes.

Mr. SIMON. That was a purely fictitious sale, wasn't it?

Mr. DWYER. Yes.

Mr. SIMON. Flanagan paid you \$4,000 and you paid the \$4,000 to Edwards and Edwards paid it back to Flanagan?

Mr. DWYER. I don't know that was the procedure. I know it wasn't a bona fide transaction.

Mr. SIMON. Didn't the same money change hands so it ended up in the same place?

Mr. DWYER. Yes. Flanagan didn't own stock.

Mr. SIMON. And didn't actually pay anything for it?

Mr. DWYER. No.

Mr. SIMON. On May 21, 1951, did you write a letter on the stationery of the FHA, to William F. Denny, Buffalo, N. Y., saying—

In answer to your letter of April 16, 1951, in accordance with Mr. Newland's letter of April 10, 1951, I have complied with Mr. Newman's recommendation that I dispose of my stock and do not now own any stock in any section 608 project.

Mr. DWYER. Yes.

Mr. SIMON. You wrote that letter?

Mr. DWYER. Yes.

Mr. SIMON. And what you told them was not true, was it?

Mr. DWYER. I had disposed of my stock pending the final settlement.

Mr. SIMON. Didn't you just testify a minute ago that it was a fictitious sale?

Mr. DWYER. I transferred the ownership to Flanagan, who represented me in the final sale; in 1951 we sold them both.

Mr. SIMON. Wasn't it a fictitious sale to Flanagan?

Mr. DWYER. He didn't actually own the stock.

Mr. SIMON. He didn't?

Mr. DWYER. No.

Mr. SIMON. Therefore when you said "I have disposed of my stock and do not own any stock in any section 608 project," that was a false statement, wasn't it?

Mr. DWYER. I didn't own the stock.

Mr. SIMON. Who did own it?

Mr. DWYER. I had transferred it to him, title to it.

Mr. SIMON. Didn't you still own it? I appreciate that after this date in April, you had physically given possession of the certificate to Flanagan but didn't you still own it?

Mr. DWYER. Yes. I suppose I did, but we had—two different people who were buying it, and Flanagan represented me in both of the sales.

Mr. SIMON. Of course, he was your nominee, wasn't he?

Mr. DWYER. He was the accountant for this.

Mr. SIMON. He was acting as your nominee, wasn't he?

Mr. DWYER. Yes.

Mr. SIMON. And anything he received when he finally sold the stock belonged to you and actually went to you, didn't it?

Mr. DWYER. Yes.

Mr. SIMON. So you did own the stock on May 22, 1951, didn't you? Although it stood in Flanagan's name?

Mr. DWYER. Yes.

Mr. SIMON. You owned it, didn't you?

Mr. DWYER. Yes.

Mr. SIMON. Then the letter wasn't true, was it?

Mr. DWYER. Except that I had transferred the ownership of my stock in name.

Senator BUSH. You didn't transfer the ownership, my friend. You just said you didn't. Now let's get that clear. You had the stock put in his name as custodian of the stock, as nominee of the stock for you, but actually he didn't own the stock, did he?

Mr. DWYER. No.

Senator BUSH. I am trying to help you. You will own it, is that right?

Mr. DWYER. Yes.

Senator BUSH. That is the point I am trying to make.

Mr. SIMON. Thank you.

Senator BUSH. Thank you very much.

Mrs. Van Loan, please. Is it Mrs. Van Loan?

Mrs. VAN LOAN. Yes.

Senator BUSH. Will you raise your right hand, please?

Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth and nothing but the truth, so help you God?

#### TESTIMONY OF MRS. RUTH VAN LOAN, BINGHAMPTON, N. Y.

Mrs. VAN LOAN. I do.

Senator BUSH. Will you give your correct name and address to the clerk?

Mrs. VAN LOAN. Mrs. Ruth Van Loan, 255 Main Street, Binghamton, N. Y.

Mr. SIMON. Mrs. Van Loan, in 1949 and 1950, were you employed by the Federal Housing Administration?

Mrs. VAN LOAN. I was.

Mr. SIMON. In the Binghamton, N. Y., office?

Mrs. VAN LOAN. Yes.

Mr. SIMON. And Mr. Dwyer was your superior, was he?

Mrs. VAN LOAN. Right.

Mr. SIMON. Did you at his request perform services for the Chapin Courts Apartments and the Watson Boulevard Apartments?

Mrs. VAN LOAN. Not at his request, no.

Mr. SIMON. At whose request was it?

Mrs. VAN LOAN. I believe Mr. Corcoran asked me.

Mr. SIMON. At the time Mr. Corcoran asked you to do some work for those projects, did you know that Mr. Dwyer was a third owner in it?

Mrs. VAN LOAN. I do not think I did.

Mr. SIMON. Did you later learn that?

Mrs. VAN LOAN. Yes.

Mr. SIMON. When did you find that out?

Mrs. VAN LOAN. When we had an investigation in Binghamton.

Mr. SIMON. When was that?

Mrs. VAN LOAN. In 1952.

Mr. SIMON. But at the time you did this work, you didn't know he was a third owner?

Mrs. VAN LOAN. I did not.

Mr. SIMON. Were you employed as a full-time employee at FHA?

Mrs. VAN LOAN. I was.

Mr. SIMON. And what was the nature of the work you did for these apartment projects?

Mrs. VAN LOAN. I merely, on my own time, once a month, collected rents.

Mr. SIMON. You collected rents for them?

Mrs. VAN LOAN. Yes.

Mr. SIMON. They paid you for that?

Mrs. VAN LOAN. They did, on occasion.

Mr. SIMON. And did you know that they were built under section 608 of the Housing Act?

Mrs. VAN LOAN. I did not.

Mr. SIMON. You didn't know that?

Mrs. VAN LOAN. I just did it as a favor.

Mr. SIMON. They did pay you for it, though?

Mrs. VAN LOAN. Eventually, but on some occasions I just did it on my own time.

Mr. SIMON. Thank you very much.

Mrs. VAN LOAN. You are very welcome.

Senator BUSH. Alfred Kaskell.

A VOICE. There has been a slight delay in Mr. Kaskell's appearance. I think he will be here very shortly with his attorney, Mr. Judd.

Senator BUSH. The committee will stand in recess for 5 minutes.

(Recess taken.)

Senator BUSH. The committee will please be in order.

The witness, Alfred Kaskell, has not appeared. He was not under subpoena because his attorney had advised the committee that he would be present to appear this afternoon. However, he has not appeared and the committee will serve a subpoena upon him to appear in Washington next week.

That being our last witness, there is no further witness, the committee will stand in recess now until Tuesday of next week, in Washington.

(Whereupon, at 2:55 p. m., Friday, October 1, 1954, the committee recessed to Tuesday, October 5, 1954, at Washington, D. C.)



# FHA INVESTIGATION

TUESDAY, OCTOBER 5, 1954

UNITED STATES SENATE,  
BANKING AND CURRENCY COMMITTEE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., Senator Homer E. Capehart, chairman, presiding.

Present: Senator Capehart.

Also present: William Simon, general counsel; T. T. Kenney, assistant general counsel, and Clarence M. Dinkins, assistant counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

The first thing I think we ought to do this morning is to call the roll of witnesses and make certain that all witnesses are here that we need today and then call the names of the witnesses for Wednesday, Thursday, and Friday.

Mr. John Cocker, Riggs Bank.

Mr. COCKER. Here.

The CHAIRMAN. Machir.

Mr. MACHIR. Here.

The CHAIRMAN. Manilow.

Mr. MANILOW. Here.

The CHAIRMAN. Mr. Dexter.

Mr. DEXTER. Here.

The CHAIRMAN. Keleher.

Mr. KELEHER. Here.

The CHAIRMAN. Taylor Johnson.

Mr. JOHNSON. Here.

The CHAIRMAN. Wright.

Mr. WRIGHT. Here.

The CHAIRMAN. Cassel.

Mr. CASSEL. Here.

The CHAIRMAN. Chaite. Chaite will be here at 11 o'clock.  
Michaux.

Mr. MICHAUX. Here.

The CHAIRMAN. Mrs. DeGrazia.

Mrs. DEGRAZIA. Here.

The CHAIRMAN. Clyde L. Powell.

Mr. POWELL. Here.

The CHAIRMAN. Those will be the witnesses for today. I doubt if we get any further than that today.

Then tomorrow: Is Ben Cohen present?

Mr. COHEN. Here.

The CHAIRMAN. You can come back tomorrow if you care to, Mr. Cohen. You can leave today and come back tomorrow. We want to

hear you tomorrow. I am trying to say to you if you want to go home and come back tomorrow, we will not get to you today.

Mr. Schneider.

Mr. SCHNEIDER. Here.

The CHAIRMAN. We will not be able to get to you today. We will get to you tomorrow, if you will be here at 10 o'clock tomorrow.

Mr. Glassman.

Mr. GLASSMAN. Here.

The CHAIRMAN. Mr. Magazine.

Mr. MAGAZINE. Here.

The CHAIRMAN. Ten o'clock tomorrow.

Mr. Corrigan.

(No response.)

The CHAIRMAN. Mr. Kaskell.

Mr. JUDD. Here.

The CHAIRMAN. No. This is Kaskell.

Mr. JUDD. He is here.

The CHAIRMAN. You can come back tomorrow.

Mr. JUDD. Tomorrow afternoon begins the Jewish holiday, Mr. Chairman.

The CHAIRMAN. The Jewish holiday is Thursday, isn't it?

Mr. JUDD. It begins at 4:30.

The CHAIRMAN. We will get you on before 4:30.

Mr. JUDD. It is necessary for people to be in their homes by 4:30.

The CHAIRMAN. We will do the best we can. We have been up against this problem in New York all last week. We are up against it here again today. We will talk to you about it a little later today. We certainly want to do the proper and right thing, and will.

Now the gentlemen that are scheduled for Thursday, Mr. Andrews, Mr. Mack, Richards, Meistrell, Neal, Lowery—is Mr. Lowery present?

(No response.)

The CHAIRMAN. Mr. Crump will be here on Thursday and Mr. Stark and Bart—

Mr. BERMAN. Yes, Mr. Chairman.

May I make a statement on that? We were first subpoenaed to be here tomorrow. Then we received a telephone call and another subpoena to be here today. Now Mr. Bart and Mr. Stark are here and I am one of their counsel. The other counsel is here. It is quite an imposition to bring us back and forth.

The CHAIRMAN. I don't think it is any imposition at all. We do the best we can and get to you as fast as we can.

Mr. BERMAN. I understand. If we abided by our first subpoena we would come in tomorrow.

The CHAIRMAN. Mr. Crump hasn't left Memphis. You are talking about Stark?

Mr. BERMAN. Yes, sir. Stark and Bart. Thursday it is utterly impossible for us to be here.

The CHAIRMAN. Why?

Mr. BERMAN. They have atonement. Mr. Stark and Mr. Bart wouldn't be here and neither would I. I am one of their counsel.

The CHAIRMAN. Make it Friday at 10 o'clock.

Mr. BERMAN. Right.

The CHAIRMAN. Mr. Keelty will be Thursday and Mr. Knott will be Thursday and on Friday. I don't think there is any change. Is Mr. Gottlieb present?

Mr. GOTTLIEB. Yes, sir.

The CHAIRMAN. Friday at 10 o'clock.

Mr. Sherman, Friday at 10 o'clock.

John Hill and Carson, 10 o'clock Friday.

Diggs and McCormack, 10 o'clock Friday.

Abraham Traub—is he present—10 o'clock Friday.

Albert Small, 10 o'clock Friday.

Louis Lesser, 10 o'clock Friday.

Mr. BERMAN. Mr. Chairman, if you will bear with me for a moment in regard to Mr. Bart and Mr. Stark, I have a letter of protest that I would like the Chair to read and consider.

The CHAIRMAN. Protesting what?

Mr. BERMAN. Our being called as witnesses at this hearing. We are under indictment in Baltimore.

The CHAIRMAN. Indictment for what?

Mr. BERMAN. We were charged with making false statements to FBI agents in regard to an alleged investigation of the FHA office in Baltimore.

Mr. SIMON. We don't plan to go into the subject of your indictment.

The CHAIRMAN. We are not going into the subject matter of your indictment.

Mr. BERMAN. I would like to leave the letter.

The CHAIRMAN. We will make it a part of the record. We will read it as soon as we can.

(The letter referred to follows:)

OCTOBER 4, 1954.

Hon. HOMER E. CAPEHART,

*Chairman, Senate Banking and Currency Committee,  
United States Senate, Washington, D. C.*

DEAR SENATOR CAPEHART: We received subpoenas requiring us to appear before your committee on Wednesday, October 6, 1954, and subsequently we also received subpoenas requiring us to appear before your committee on October 5, 1954.

Before we are called on to testify, we desire to call your committee's attention to indictments pending against us in the United States District Court for the District of Maryland. In these indictments, which were filed November 24, 1953, we are each charged in two counts with making certain false statements to special agents of the Federal Bureau of Investigation in connection with an alleged investigation of the conduct of officers and employees of the United States employed in the Baltimore Insuring Office of the Federal Housing Administration. We hereto attach copies of said indictments.

We desire to enter our protest to being called to testify before the committee at this time and we respectfully request that the committee excuse us from testifying until after the indictments against us are disposed of, at which time we shall be happy to appear and cooperate in the answering of questions which this committee may put to us. We expect to be brought to trial in the near future because in a hearing on September 10, 1954, in a related case in the United States District Court for the District of Maryland, the United States attorney stated that the Government desires to bring these cases to trial this fall.

The Baltimore papers have already carried a number of front-page articles stating that we have been called to testify before this committee, which articles not only mention us together with another builder who it is stated received a so-called windfall of over \$1 million, but also distinctly refer to the fact that we are under indictment charged with "lying to agents of the Federal Bureau of Investigation."

We feel that the nationwide publicity already given to this investigation of the FHA by this committee has seriously prejudiced our cases and if we are

called upon to testify by this committee at this time, the publicity will serve no other purpose than to further prejudice our rights to a fair and impartial trial of the charges pending against us and cause us serious and irreparable damage.

We further also respectfully point out that our testimony is not indispensable because we have already testified under oath at an executive session before Messrs. Hogue, Kenney, and Murphy of your committee's staff, on August 13, 1954, at which we gave them all the information which they called for. You also have had access to our income-tax returns from which you can develop a full picture of our finances.

As you will no doubt recall the United States Court of Appeals for the First Circuit in the case of *Delaney v. United States* (199 F. 2d 107, decided October 10, 1952), clearly and emphatically pointed out the prejudice and injustice which is caused to a defendant awaiting trial by the publicity given to an investigation of a congressional committee.

Chief Judge Magruder, in the opinion in that case, in discussing the difficulties that a defendant would have in obtaining a fair trial, after he had been given widespread publicity as a result of hearings held before a congressional committee, said:

"One cannot assume that the average juror is so endowed with a sense of detachment, so clear in his introspective perception of his own mental processes, that he may confidently exclude even the unconscious influence of his preconceptions as to probable guilt, engendered by a pervasive pretrial publicity. This is particularly true in the determination of issues involving the credibility of witnesses."

To require us to testify at this time would also violate our fundamental rights guaranteed to us by the sixth amendment to the Constitution of the United States which guarantees to every citizen a fair and impartial trial.

Respectfully yours,

HARRY BART.  
ALLEN STARK.

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF  
MARYLAND

UNITED STATES OF AMERICA v. HARRY BART

CRIMINAL No. 22814

Knowingly and willfully making false statements in connection with matters within the jurisdiction of an agency of the United States (U. S. C., title 18, sec. 1001)

The grand jury for the district of Maryland charges:

That on the 6th day of December 1952, at Baltimore, in the State and district of Maryland, Harry Bart, the defendant herein, a building contractor engaged in the business of constructing a number of apartment houses and other housing accommodations as a joint and common venture with one Albert Stark under various corporate names, including United Contractors, Inc., from prior to May 7, 1949, to and after December 6, 1952, said construction projects being financed by means of mortgages insured by the Federal Housing Administration and subject to continuing Federal Housing Administration inspection during the period of construction to verify that said construction was in compliance with Federal Housing Administration approved plans and specifications, having taken an oath before Lindian J. Swaim and E. Lawrence Hyland, special agents of the Federal Bureau of Investigation, officers lawfully detailed by the Federal Bureau of Investigation to investigate irregularities and misconduct of officers and employees of the United States employed in the Baltimore Insuring Office of the Federal Housing Administration, and lawfully detailed to investigate frauds on, and attempts to defraud the Government in the functioning of the Maryland offices, employees, and officers of the Federal Housing Administration, matters within the jurisdiction of the Federal Bureau of Investigation, an agency of the United States, that he, the said Harry Bart would state and declare truly, the said Harry Bart did knowingly and willfully make a false and fictitious statement material to the said investigation, to wit: "That he, the said Harry Bart had never given nor paid any money to any employee or official of the Federal Housing Administration at any time, for any reason whatsoever," whereas in fact said statement was false and fictitious and then known to the said Harry Bart to be false and fictitious.

(U. S. C., title 18, sec. 1001.)

## SECOND COUNT

And the grand jury for the district of Maryland further charges:

That on the 6th day of December 1952, at Baltimore, in the State and district of Maryland, Harry Bart, the defendant herein, a building contractor engaged in the business of constructing a number of apartment houses and other housing accommodations as a joint and common venture with one Albert Stark under various corporate names, including United Contractors, Inc., from prior to May 7, 1949, to and after December 6, 1952, said construction projects being financed by means of mortgages insured by the Federal Housing Administration and subject to continuing Federal Housing Administration inspection during the period of construction to verify that said construction was in compliance with Federal Housing Administration approved plans and specifications, having taken an oath before Lindian J. Swaim and E. Lawrence Hyland, special agents of the Federal Bureau of Investigation, officers lawfully detailed by the Federal Bureau of Investigation to investigate irregularities and misconduct of officers and employees of the United States employed in the Baltimore Insuring Office of the Federal Housing Administration, and lawfully detailed to investigate frauds on, and attempts to defraud the Government in the functioning of the Maryland offices, employees, and officers of the Federal Housing Administration, matters within the jurisdiction of the Federal Bureau of Investigation, an agency of the United States, that he, the said Harry Bart would state and declare truly, the said Harry Bart did knowingly and willfully make a false and fictitious statement material to the said investigation, to wit: That he had never given the sum of \$500, or any sum of money, to one Harry House, Federal Housing Administration inspector, and that he had never received from the said Harry House the sum of \$500, whereas in fact said statement was false and fictitious and then known to the said Harry Bart to be false and fictitious.

(U. S. C., title 18, sec. 1001.)

\_\_\_\_\_  
United States Attorney.

A true bill:

\_\_\_\_\_  
Foreman.

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF  
MARYLAND

UNITED STATES OF AMERICA v. ALBERT STARK

CRIMINAL No. 22813

Knowingly and willfully making false statements in connection with matters within the jurisdiction of an agency of the United States (U. S. C., title 18, sec. 1001)

The grand jury for the district of Maryland charges:

That on the 6th day of December 1952, at Baltimore, in the State and district of Maryland, Albert Stark, the defendant herein, a building contractor engaged in the business of constructing numerous apartment houses and other housing accommodations as a joint and common venture with one Harry Bart under various corporate names, including United Contractors, Inc., from prior to May 7, 1949, to and after December 6, 1952, said construction projects being financed by means of mortgages insured by the Federal Housing Administration and subject to continuing Federal Housing Administration inspection during the period of construction to verify that said construction was in compliance with Federal Housing Administration approved plans and specifications, having taken an oath before Lindian J. Swaim and E. Lawrence Hyland, special agents of the Federal Bureau of Investigation, officers lawfully detailed by the Federal Bureau of Investigation to investigate irregularities and misconduct of officers and employees of the United States employed in the Baltimore Insuring Office of the Federal Housing Administration, and lawfully detailed to investigate frauds on, and attempts to defraud, the Government in the functioning of the Maryland offices, employees and officers of the Federal Housing Administration, matters within the jurisdiction of the Federal Bureau of Investigation, an agency of the United States, that he, the said Albert Stark, would state and declare truly,

the said Albert Stark did knowingly and willfully make a false and fictitious statement material to the said investigation, to wit: that he, the said Albert Stark, had never made any payment of money nor had he given anything of value to any employee or official of the Federal Housing Administration for any reason whatsoever, except that he had purchased some kitchen cabinets for one J. Hamilton Walker, Chief Architect, Baltimore Insuring Office, Federal Housing Administration, for which cabinets the said J. Hamilton Walker had subsequently paid him, the said Albert Stark, in full; and further, that he had no knowledge of anyone else making payments or giving things of value to Federal Housing Administration employees or officials for which there had been no reimbursements, whereas in fact said statement was false and fictitious and then known to the said Albert Stark to be false and fictitious.

(U. S. C., title 18, sec. 1001.)

SECOND COUNT

And the grand jury for the district of Maryland further charges:

That on the 8th day of December 1952, at Baltimore, in the State and district of Maryland, Albert Stark, the defendant herein, a building contractor engaged in the business of constructing numerous apartment houses and other housing accommodations as a joint and common venture with one Harry Bart under various corporate names, including United Contractors, Inc., from prior to May 7, 1949, to and after December 6, 1952, said construction projects being financed by means of mortgages insured by the Federal Housing Administration and subject to continuing Federal Housing Administration inspection during the period of construction to verify that said construction was in compliance with Federal Housing Administration approved plans and specifications, having taken an oath before Lindian J. Swaim and E. Lawrence Hyland, special agents of the Federal Bureau of Investigation, officers lawfully detailed by the Federal Bureau of Investigation to investigate irregularities and misconduct of officers and employees of the United States employed in the Baltimore Insuring Office of the Federal Housing Administration, and lawfully detailed to investigate frauds on, and attempts to defraud, the Government in the functioning of the Maryland offices, employees and officers of the Federal Housing Administration, matters within the jurisdiction of the Federal Bureau of Investigation, an agency of the United States, that he, the said Albert Stark, would state and declare truly, the said Albert Stark did knowingly and willfully make a false and fictitious statement material to the said investigation, to wit: that he knew one Harry House, a Federal Housing Administration inspector, but had no knowledge of the sum of \$500, or any sum of money, ever having been paid to the said Harry House by anyone, and that he had no knowledge of the return by mail by the said Harry House of the sum of \$500 in cash to one Harry Bart, or to himself, the said Albert Stark, or to United Contractors, Inc., Baltimore, Md., whereas in fact said statement was false and fictitious and then known to the said Albert Stark to be false and fictitious.

(U. S. C., title 18, sec. 1001.)

\_\_\_\_\_  
*United States Attorney.*

A true bill:

\_\_\_\_\_  
*Foreman.*

The CHAIRMAN. We still want you to appear at 10 o'clock Friday unless notified to the contrary. We will be glad to read your letter.

Mr. JUDD. I understand you adjourned some of the cases where there were religious problems until 10 o'clock Friday.

The CHAIRMAN. Yes.

Mr. JUDD. So you adjourn Mr. Cassell's case until 10 o'clock Friday?

The CHAIRMAN. You are appearing tomorrow with Cassell.

Mr. JUDD. He has to be home at his home tomorrow afternoon.

The CHAIRMAN. Let's talk about it later. We want to get the hearing underway at the moment.

Our first witness will be Mr. John R. Cocker of the Riggs National Bank. Will you come forward, Mr. Cocker?

Will Mr. Bard of the General Accounting Office likewise take his seat out at the witness stand?

Mr. Cocker, will you be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. COCKER. Yes, sir.

The CHAIRMAN. Thank you, sir. Will you please be seated?

Mr. Bard, will you be sworn, please? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BARD. Yes, sir.

The CHAIRMAN. Thank you, sir.

### TESTIMONY OF JOHN R. COCKER, RIGGS NATIONAL BANK, WASHINGTON, D. C., AND JOHN A. BARD, ACCOUNTANT, BANKING AND CURRENCY COMMITTEE

The CHAIRMAN. Now, Mr. Cocker, will you give your full name and address and your position with the Riggs National Bank?

Mr. COCKER. My name is John R. Cocker, assistant vice president of the Riggs National Bank.

The CHAIRMAN. And Mr. Bard, will you give your position, please?

Mr. BARD. I am a staff member of the General Accounting Office on loan to this committee.

The CHAIRMAN. You are a member of the General Accounting Office staff loaned to this committee?

Mr. BARD. That is right, sir.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Cocker, you have been subpoenaed to produce here today records of the Riggs National Bank, including financial statements filed with the bank by Mr. Clyde L. Powell.

Do you have those financial statements?

Mr. COCKER. Yes, sir.

The CHAIRMAN. Do you have, first, a series of financial statements, the first of which is dated November 16, 1942?

Mr. COCKER. November 16.

Mr. SIMON. 1942?

Mr. COCKER. Yes.

Mr. SIMON. Does that show total assets of \$36,750?

Mr. COCKER. Yes, sir.

Mr. SIMON. And liabilities of \$1,700?

Mr. COCKER. Yes, sir.

The CHAIRMAN. Do you have a photostat copy of that?

Mr. SIMON. You have previously permitted us to make photostats available; is that right?

Mr. COCKER. Yes, sir.

The CHAIRMAN. Without objection, we will make this statement a part of the record.

(The information follows:)

6

PR 400

INDIVIDUAL

Name Clyde L. Pauze

Occupation or Business Assistant Commissioner F.H.A.

Address Federal Housing Admin - Wash D.C.

To The RIGGS NATIONAL BANK of Washington, D. C.

The undersigned, for the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, submits the following as being a true and accurate statement of his financial condition on the 16th day of November, 1942 and agrees that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against him, the undersigned will immediately and without delay notify the said Bank, and unless the Bank is so notified it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned.

In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an Act of Bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall, at your election, immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you.

| ASSETS  |                     | LIABILITIES                       |         |
|---|---------------------|-----------------------------------|---------|
| Cash on hand                                    | 1600 00             | Notes payable to banks            | 1500 00 |
| Cash in Bank                                    | 150 00              | Notes payable to others           | None    |
| Notes Receivable (good)                         |                     | Open accounts payable             | 200 00  |
| Accounts Receivable (good)                      | <del>2500 00</del>  | Mortgages or liens on real estate | None    |
| Real Estate (Itemize below)                     | 25000 00            |                                   |         |
| Equipment and Office Furniture used in business |                     |                                   |         |
| Stocks—(Itemize reverse side)                   |                     |                                   |         |
| Bonds—(Itemize reverse side)                    | 10000 00            |                                   |         |
| 1st Mortgages—(Itemize reverse side)            |                     |                                   |         |
| 2nd Mortgages—(Itemize reverse side)            |                     |                                   |         |
|   |                     | Total liabilities                 | 1700 00 |
|   |                     | Net worth                         |         |
| <b>TOTAL</b>                                    | <b>\$ 36,750 00</b> | <b>TOTAL</b>                      |         |

REAL ESTATE: (Please Give Particulars on Each Parcel Owned)

| Description and Location | Title in Name of                 | Cost | Assessed Value | Estimated Value | Mortgages | Insurance |
|--------------------------|----------------------------------|------|----------------|-----------------|-----------|-----------|
| 160 @ Farm               | Clyde L. Pauze<br>Husband & Wife |      |                | 0               |           |           |
| Beet Co. Mo.             |                                  |      |                | 8000 00         | None      |           |
| Flour & Feed Mill        |                                  |      |                | 15000 00        | None      |           |
| Beet Co. Mo.             |                                  |      |                |                 |           |           |
| 80 @ Farm                |                                  |      |                | 2000 00         | None      |           |
| Franklin Co. Mo.         |                                  |      |                |                 |           |           |

State annual net income from real estate and securities \_\_\_\_\_

State annual net income from business or profession \_\_\_\_\_

Salary per annum \_\_\_\_\_

Other income \_\_\_\_\_

Amount of life insurance carried, \$ 10,000 00 Beneficiary Wife

Amount of tornado insurance on real estate, \$ \_\_\_\_\_ Amount of liability insurance \_\_\_\_\_

Give details of contingent liability of any kind or nature, as endorser or guarantor, or accommodation endorser \_\_\_\_\_

Are any of your assets, other than real estate, pledged or hypothecated in any way? no

Are you a partner in any firm? \_\_\_\_\_

Is there any other person interested in your business, either as a special or limited partner? no

STOCKS:

| Number of Shares | Name of Company | Kind of Stock | Market Values | If pledged as security state amount of loan |
|------------------|-----------------|---------------|---------------|---|
|                  |                 |               |               | \$  |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |

BONDS:

| Par Value    | Name of Company | Description   | Market Values | If pledged as security state amount of loan |
|--------------|-----------------|---------------|---------------|---|
| \$ 10,000.00 | Genl            | 1955-60. 2779 |               | \$ 7000                                     |
|              |                 |               |               |   |
|              |                 |               |               |   |
|              |                 |               |               |   |
|              |                 |               |               |   |
|              |                 |               |               |   |
|              |                 |               |               |   |
|              |                 |               |               |   |
|              |                 |               |               |   |
|              |                 |               |               |   |

FIRST MORTGAGES OR FIRST TRUST NOTES:

| Property | Street and Number | Lot | Sq. | Total Trust | Amount Owned |
|----------|-------------------|-----|-----|-------------|--------------|
|          |                   |     |     | \$          | \$           |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |

SECOND MORTGAGES OR SECOND TRUST NOTES:

| Property | Street and Number | Lot | Sq. | Total 1st | Total 2d | Amount Owned |
|----------|-------------------|-----|-----|-----------|----------|--------------|
|          |                   |     |     | \$        | \$       | \$           |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |

REFERENCES:

I hereby certify that the above is a true and correct statement as of the date above stated and I understand that any credit now or hereafter given me is made upon the strength of the statements contained herein.

Date signed Nov 16, 1942 Clyde L. Powell  
Signature

Mr. SIMON. Secondly, do you have a financial statement signed by Clyde L. Powell and submitted to the Riggs National Bank, dated August 3, 1944, showing total assets of \$38,200, total liabilities of \$2,750?

Mr. COCKER. August 3, 1944, total assets of \$38,200, total liabilities, \$2,750.

The CHAIRMAN. Without objection, it will be made a part of the record.

(The information referred to follows:)

8

PR 400

INDIVIDUAL

Name Clyde L. Powell

Occupation or Business F. H. A. Act. Commissioner

Address Federal Housing Admin. Wash. D.C.

To The RIGGS NATIONAL BANK of Washington, D. C.

The undersigned, for the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, submits the following as being a true and accurate statement of his financial condition on the 3rd day of August, 1944, and agrees that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against him, the undersigned will immediately and without delay notify the said Bank, and unless the Bank is so notified it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned.

In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an Act of Bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall, at your election, immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you.

| ASSETS  |           | LIABILITIES                       |          |
|---|-----------|-----------------------------------|----------|
| Cash on hand                                    | 100.00    | Notes payable to banks            | 2,500.00 |
| Cash in Bank                                    | 200.00    | Notes payable to others           | None     |
| Notes Receivable (good)                         |           | Open accounts payable             | 250.00   |
| Accounts Receivable (good)                      |           | Mortgages or liens on real estate | None     |
| Real Estate (Itemize below)                     | 25,000.00 |                                   |          |
| Equipment and Office Furniture used in business |           |                                   |          |
| Stocks—(Itemize reverse side)                   |           |                                   |          |
| Bonds—(Itemize reverse side)                    | 12,500.00 |                                   |          |
| 1st Mortgages—(Itemize reverse side)            |           |                                   |          |
| 2nd Mortgages—(Itemize reverse side)            |           |                                   |          |
|   |           | Total liabilities                 | 2,750.00 |
|   | 38,700.00 | Net worth                         |          |
| TOTAL   |           | TOTAL                             |          |

REAL ESTATE: (Please Give Particulars on Each Parcel Owned)

| Description and Location | Title in Name of                | Cost | Assessed Value | Estimated Value | Mortgages | Insurance |
|--------------------------|---------------------------------|------|----------------|-----------------|-----------|-----------|
| 160 E Farm               | Clyde L. Powell<br>H. W. Powell |      |                |                 |           |           |
| Dist. Co. 740            |                                 |      |                | 8000.00         | None      |           |
| Lease & Fish Pond        |                                 |      |                | 15000.00        | None      |           |
| Dist. Co. 740            |                                 |      |                |                 |           |           |
| 80 E Farm                |                                 |      |                | 7000.00         | None      |           |
| Franklin Co. 740         |                                 |      |                |                 |           |           |

State annual net income from real estate and securities \$

State annual net income from business or profession \$

Salary per annum \$ 9600.00

Other income \$

Amount of life insurance carried, \$ 10,000 Beneficiary Estates

Amount of tornado insurance on real estate, \$ Amount of liability insurance \$

Give details of contingent liability of any kind or nature, as endorser or guarantor, or accommodation endorser.

None.

Are any of your assets, other than real estate, pledged or hypothecated in any way? NO.

Are you a partner in any firm?

Is there any other person interested in your business, either as a special or limited partner? NO.

STOCKS:

| Number of Shares | Name of Company | Kind of Stock | Market Value | If pledged as security state amount of loan |
|------------------|-----------------|---------------|--------------|---|
|                  |                 |               |              | \$  |
|                  |                 |               |              |   |
|                  |                 |               |              |   |
|                  |                 |               |              |   |
|                  |                 |               |              |   |
|                  |                 |               |              |   |
|                  |                 |               |              |   |
|                  |                 |               |              |   |
|                  |                 |               |              |   |
|                  |                 |               |              |   |

BONDS:

| Par Value | Name of Company                | Description          | Market Value | If pledged as security state amount of loan |
|-----------|--------------------------------|----------------------|--------------|---|
| 10,000    | <i>Govt -</i>                  | <i>1955-60.2.7/8</i> |              | <i>None</i>                                 |
| 7,500     | <i>Joint War Bonds Service</i> | <i>Series E</i>      |              | <i>None</i>                                 |
|           |                                |                      |              |   |
|           |                                |                      |              |   |
|           |                                |                      |              |   |
|           |                                |                      |              |   |
|           |                                |                      |              |   |
|           |                                |                      |              |   |
|           |                                |                      |              |   |
|           |                                |                      |              |   |

FIRST MORTGAGES OR FIRST TRUST NOTES:

| Property | Street and Number | Lot | Sq. | Total Trust | Amount Owned |
|----------|-------------------|-----|-----|-------------|--------------|
|          |                   |     |     | \$          | \$           |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |

SECOND MORTGAGES OR SECOND TRUST NOTES:

| Property | Street and Number | Lot | Sq. | Total 1st | Total 2d | Amount Owned |
|----------|-------------------|-----|-----|-----------|----------|--------------|
|          |                   |     |     | \$        | \$       | \$           |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |

REFERENCES:

I hereby certify that the above is a true and correct statement as of the date above stated and I understand that any credit now or hereafter given me is made upon the strength of the statements contained herein.

Date signed August 3<sup>rd</sup>, 1944 Clyde L. Powell  
Signature

Mr. SIMON. Financial statement of October 8, 1945?  
 Mr. COCKER. Yes.  
 Mr. SIMON. Showing total assets of \$38,400, liabilities of \$2,500?  
 Mr. COCKER. That is right.  
 The CHAIRMAN. Without objection, the statement will be made a part of the record.

(The information referred to follows:)

11

PR 400

INDIVIDUAL

Name Clyde L. Powell

Occupation or Business Asst-Commissioner F.H.A.

Address Federal Housing Admin. Wash D.C.

To The RIGGS NATIONAL BANK of Washington, D. C.

The undersigned, for the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, submits the following as being a true and accurate statement of his financial condition on the 1st day of October, 1944, and agrees that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against him, the undersigned will immediately and without delay notify the said Bank, and unless the Bank is so notified it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned.

In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an Act of Bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall, at your election, immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you.

| ASSETS  |                | LIABILITIES                       |        |
|---|----------------|-----------------------------------|--------|
| Cash on hand                                    | 800 =          | Notes payable to banks            | 2500 = |
| Cash in Bank                                    | 100 =          | Notes payable to others           |        |
| Notes Receivable (good)                         |                | Open accounts payable             |        |
| Accounts Receivable (good)                      |                | Mortgages or liens on real estate |        |
| Real Estate (Itemize below)                     | 25000 =        |                                   |        |
| Equipment and Office Furniture used in business |                |                                   |        |
| Stocks—(Itemize reverse side)                   |                |                                   |        |
| Bonds—(Itemize reverse side)                    | 12500 =        |                                   |        |
| 1st Mortgages—(Itemize reverse side)            |                |                                   |        |
| 2nd Mortgages—(Itemize reverse side)            |                |                                   |        |
|   |                | Total liabilities                 |        |
|   |                | Net worth                         |        |
| <b>TOTAL</b>                                    | <b>38400 =</b> | <b>TOTAL</b>                      |        |

REAL ESTATE: (Please Give Particulars on Each Parcel Owned)

| Description and Location | Title in Name of | Cost | Assessed Value | Estimated Value | Mortgages | Insurance |
|--------------------------|------------------|------|----------------|-----------------|-----------|-----------|
| 160 @ Farm               | Jointly owned    |      |                | 8000 =          | None      |           |
| Dist. Co., Mo.           |                  |      |                |                 |           |           |
| Flour + Feed mill        |                  |      |                | 15000 =         | None      |           |
| Dist. Co., Mo            |                  |      |                |                 |           |           |
| 80 @ Farm                |                  |      |                | 2000 =          | None      |           |
| Quailton, Co. Mo         |                  |      |                |                 |           |           |

State annual net income from real estate and securities \$

State annual net income from business or profession \$

Salary per annum \$ 9900.00

Other income \$

Amount of life insurance carried, \$ 10,000 = Beneficiary Estate

Amount of tornado insurance on real estate, \$ Amount of liability insurance \$

Give details of contingent liability of any kind or nature, as endorser or guarantor, or accommodation endorser None

Are any of your assets, other than real estate, pledged or hypothecated in any way? no

Are you a partner in any firm?

Is there any other person interested in your business, either as a special or limited partner? no

STOCKS:

| Number of Shares | Name of Company | Kind of Stock | Market Values | If pledged as security<br>State amount of loan |
|------------------|-----------------|---------------|---------------|--|
|                  |                 |               |               | \$   |
|                  |                 |               |               |  |
|                  |                 |               |               |  |
|                  |                 |               |               |  |
|                  |                 |               |               |  |
|                  |                 |               |               |  |
|                  |                 |               |               |  |
|                  |                 |               |               |  |

BONDS:

| Par Values | Name of Company | Description   | Market Values | If pledged as security<br>State amount of loan |
|------------|-----------------|---------------|---------------|--|
| 10,000 =   | Govt.           | 1955-60, 2.7% |               | \$   |
| 2,500 =    | Govt War Bonds  | Series E      |               |  |
|            |                 |               |               |  |
|            |                 |               |               |  |
|            |                 |               |               |  |

FIRST MORTGAGES OR FIRST TRUST NOTES:

| Property | Street and Number | Lot | Sq. | Total Trust | Amount Owned |
|----------|-------------------|-----|-----|-------------|--------------|
|          |                   |     |     | \$          | \$           |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |

SECOND MORTGAGES OR SECOND TRUST NOTES:

| Property | Street and Number | Lot | Sq. | Total 1st | Total 2d | Amount Owned |
|----------|-------------------|-----|-----|-----------|----------|--------------|
|          |                   |     |     |           | \$       | \$           |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |

REFERENCES:

\_\_\_\_\_

\_\_\_\_\_

I hereby certify that the above is a true and correct statement as of the date above stated and I understand that any credit now or hereafter given me is made upon the strength of the statements contained herein.

Date signed 10/19, 1945 Clyde L. Powell  
Signature

Mr. SIMON. Statement of March 31, 1947, showing total assets of \$38,700, liabilities of \$3,000?  
 Mr. COCKER. Yes, sir.  
 The CHAIRMAN. Without objection, the statement will be made a part of the record.

(The information referred to follows:)

(13)

PR 408

INDIVIDUAL

Name Clyde Z. Pawnee

Occupation or Business Assistant Commissioner F.H.A.

Address Federal Housing Admin. Washington D.C.

To The RIGGS NATIONAL BANK of Washington, D. C.

The undersigned, for the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, submits the following as being a true and accurate statement of his financial condition on the 31st day of March, 1947, and agrees that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against him, the undersigned will immediately and without delay notify the said Bank, and unless the Bank is so notified it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned.

In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an Act of Bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall, at your election, immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you.

| ASSETS  |           | LIABILITIES                       |        |
|---|-----------|-----------------------------------|--------|
| Cash on hand                                    | 200 =     | Notes payable to banks            | 3000 = |
| Cash in Bank                                    | 500 =     | Notes payable to others           |        |
| Notes Receivable (good)                         |           | Open accounts payable             |        |
| Accounts Receivable (good)                      |           | Mortgages or liens on real estate |        |
| Real Estate (Itemize below)                     | 25 000 =  |                                   |        |
| Equipment and Office Furniture used in business |           |                                   |        |
| Stocks—(Itemize reverse side)                   |           |                                   |        |
| Bonds—(Itemize reverse side)                    | 13 000 =  |                                   |        |
| 1st Mortgages—(Itemize reverse side)            |           |                                   |        |
| 2nd Mortgages—(Itemize reverse side)            |           |                                   |        |
|   |           | Total liabilities                 |        |
|   |           | Net worth                         |        |
| TOTAL   | 438 700 = | TOTAL                             |        |

REAL ESTATE: (Please Give Particulars on Each Parcel Owned)

| Description and Location | Title in Name of            | Cost | Assessed Value | Estimated Value | Mortgages | Insurance |
|--------------------------|-----------------------------|------|----------------|-----------------|-----------|-----------|
| * 160 @ Farm             | } <u>Trust &amp; Family</u> |      |                | 8000 =          | None      |           |
| Beck Co. Mo.             |                             |      |                | 15000 =         | None      |           |
| Farm & Feed Mill         |                             |      |                | 2000 =          | None      |           |
| Beck Co. Mo              |                             |      |                |                 |           |           |
| 80 @ Farm                |                             |      |                |                 |           |           |
| Franklin Co. Mo          |                             |      |                |                 |           |           |

State annual net income from real estate and securities \$

State annual net income from business or profession \$

Salary per annum \$ 10,000.00

Other income \$

Amount of life insurance carried, \$ 10,000.00 Beneficiary estate

Amount of tornado insurance on real estate, \$ Amount of liability insurance \$

Give details of contingent liability of any kind or nature, as endorser or guarantor, or accommodation endorser None.

Are any of your assets, other than real estate, pledged or hypothecated in any way? No.

Are you a partner in any firm? No.

Is there any other person interested in your business, either as a special or limited partner? No.

(over)

\* CLP = interest 2/3. None

STOCKS:

| Number of Shares | Name of Company | Kind of Stock | Market Value | If pledged as security |                |
|------------------|-----------------|---------------|--------------|------------------------|----------------|
|                  |                 |               |              | state                  | amount of loan |
|                  |                 |               |              | \$                     |                |
|                  |                 |               |              |                        |                |
|                  |                 |               |              |                        |                |
|                  |                 |               |              |                        |                |
|                  |                 |               |              |                        |                |
|                  |                 |               |              |                        |                |
|                  |                 |               |              |                        |                |

BONDS:

| Par Value | Name of Company  | Description    | Market Value | If pledged as security |                |
|-----------|------------------|----------------|--------------|------------------------|----------------|
|           |                  |                |              | state                  | amount of loan |
| 10,000 =  | Gen'l.           | 1955-60. 2 7/8 |              | \$                     |                |
| 3,000 =   | South West Bonds | Series E       |              |                        |                |
|           |                  |                |              |                        |                |
|           |                  |                |              |                        |                |

FIRST MORTGAGES OR FIRST TRUST NOTES:

| Property | Street and Number | Lot | Sq. | Total Trust |  | Amount Owned |
|----------|-------------------|-----|-----|-------------|--|--------------|
|          |                   |     |     | \$          |  | \$           |
|          |                   |     |     |             |  |              |
|          |                   |     |     |             |  |              |
|          |                   |     |     |             |  |              |

SECOND MORTGAGES OR SECOND TRUST NOTES:

| Property | Street and Number | Lot | Sq. | Total 1st | Total 2d | Amount Owned |
|----------|-------------------|-----|-----|-----------|----------|--------------|
|          |                   |     |     | \$        | \$       | \$           |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |

REFERENCES:

\_\_\_\_\_

\_\_\_\_\_

I hereby certify that the above is a true and correct statement as of the date above stated and I understand that any credit now or hereafter given me is made upon the strength of the statements contained herein.

Date signed 3/21 -, 1947 Clyde L. Powell  
 Signature

Mr. SIMON. Statement of April 21, 1948, showing assets of \$37,400, and no liabilities?  
 Mr. COCKER. That is right.  
 The CHAIRMAN. It will go in.

(The statement referred to follows:)

(14)

PR 400

Name Klyde L. Pomeroy

INDIVIDUAL Occupation or Business Assistant Commissioner F.H.A.

Address Federal Housing Admin Washington D.C.

**To The RIGGS NATIONAL BANK of Washington, D. C.**

The undersigned, for the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, submits the following as being a true and accurate statement of his financial condition on the 21<sup>st</sup> day of April, 1942 and agrees that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against him, the undersigned will immediately and without delay notify the said Bank, and unless the Bank is so notified it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned.

In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an Act of Bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall, at your election, immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you.

| ASSETS  |                 |  | LIABILITIES                       |  |  |
|---|-----------------|--|-----------------------------------|--|--|
| Cash on hand                                    | 500 =           |  | Notes payable to banks            |  |  |
| Cash in Bank                                    | 300 =           |  | Notes payable to others           |  |  |
| Notes Receivable (good)                         |                 |  | Open accounts payable             |  |  |
| Accounts Receivable (good)                      |                 |  | Mortgages or liens on real estate |  |  |
| Real Estate (Itemize below)                     | 23,000 =        |  |                                   |  |  |
| Equipment and Office Furniture used in business |                 |  |                                   |  |  |
| Stocks—(Itemize reverse side)                   |                 |  |                                   |  |  |
| Bonds—(Itemize reverse side)                    | 13,600 =        |  |                                   |  |  |
| 1st Mortgages—(Itemize reverse side)            |                 |  |                                   |  |  |
| 2nd Mortgages—(Itemize reverse side)            |                 |  |                                   |  |  |
|   |                 |  | Total liabilities                 |  |  |
|   |                 |  | Net worth                         |  |  |
| <b>TOTAL</b>                                    | <b>37,400 =</b> |  | <b>TOTAL</b>                      |  |  |

**REAL ESTATE:** (Please Give Particulars on Each Parcel Owned)

| Description and Location       | Title in Name of | Cost | Assessed Value | Estimated Value | Mortgages | Insurance |
|--------------------------------|------------------|------|----------------|-----------------|-----------|-----------|
| * 160 A Farm Dent Co. Mo       | H.L. Pomeroy     |      |                | 800 =           | None      |           |
| Flour + Feed Mill - Dent Co Mo |                  |      |                | 1500 =          | None      |           |

State annual net income from real estate and securities \_\_\_\_\_ \$

State annual net income from business or profession \_\_\_\_\_ \$

Salary per annum \_\_\_\_\_ \$ 10,000 =

Other income \_\_\_\_\_ \$

Amount of life insurance carried, \$ 10,000 = Beneficiary Estate

Amount of tornado insurance on real estate, \$ \_\_\_\_\_ Amount of liability insurance \_\_\_\_\_ \$

Give details of contingent liability of any kind or nature, as endorser or guarantor, or accommodation endorser. None

Are any of your assets, other than real estate, pledged or hypothecated in any way? No

Are you a partner in any firm? No

Is there any other person interested in your business, either as a special or limited partner? No

(over)

\* CRP interest 2/3

STOCKS:

| Number of Shares | Name of Company | Kind of Stock | Market Values | If pledged as security state amount of loan |
|------------------|-----------------|---------------|---------------|---|
|                  |                 |               |               | \$  |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |
|                  |                 |               |               |   |

BONDS:

| Par Values | Name of Company  | Description    | Market Values | If pledged as security state amount of loan |
|------------|------------------|----------------|---------------|---|
| 10,000 =   | Gaut             | 1955-60, 2 7/8 |               | \$  |
| 3,600 =    | Gaut's WMA Bonds | Series E       |               |   |
|            |                  |                |               |   |
|            |                  |                |               |   |
|            |                  |                |               |   |
|            |                  |                |               |   |
|            |                  |                |               |   |
|            |                  |                |               |   |
|            |                  |                |               |   |
|            |                  |                |               |   |

FIRST MORTGAGES OR FIRST TRUST NOTES:

| Property | Street and Number | Lot | Sq. | Total Trust | Amount Owned |
|----------|-------------------|-----|-----|-------------|--------------|
|          |                   |     |     | \$          | \$           |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |
|          |                   |     |     |             |              |

SECOND MORTGAGES OR SECOND TRUST NOTES:

| Property | Street and Number | Lot | Sq. | Total 1st | Total 2d | Amount Owned |
|----------|-------------------|-----|-----|-----------|----------|--------------|
|          |                   |     |     | \$        | \$       | \$           |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |
|          |                   |     |     |           |          |              |

REFERENCES:

I hereby certify that the above is a true and correct statement as of the date above stated and I understand that any credit now or hereafter given me is made upon the strength of the statements contained herein.

Date signed 4/21, 1948 Clayton L. Powell  
Signature

Mr. SIMON. In each of those statements of roughly \$23,000 to \$25,000, is there shown Mr. Powell's interest in a farm in Missouri?

Mr. COCKER. Yes.

Mr. SIMON. Did the bank ever check to determine what was the value of that farm?

Mr. COCKER. No, sir.

Mr. SIMON. The bank didn't know that it was a couple of years ago sold for \$3,000?

Mr. COCKER. No, sir.

Mr. SIMON. Each of the statements that we have just referred to, Mr. Cocker, was submitted to the bank in the regular course of its business?

Mr. COCKER. That is right.

Mr. SIMON. And in connection with loans that Mr. Powell from time to time made at the bank?

Mr. COCKER. That is right.

Mr. SIMON. There are no statements after 1948; is that right?

Mr. COCKER. I believe that was the latest one; yes.

Mr. SIMON. That is the last statement. Is that because Mr. Powell made no loans from the bank after 1948?

Mr. COCKER. That is right.

Mr. SIMON. Do you have with you the liability ledger of Clyde L. Powell at the Riggs National Bank?

Mr. COCKER. Yes, sir; I do.

Mr. SIMON. Does that show that beginning on October 15, 1937, he made some loans at the bank?

Mr. COCKER. None on October—wait a minute.

Mr. SIMON. Isn't the first loan—the first loan was due October 15, 1937?

Mr. COCKER. That is right.

Mr. SIMON. Made in September, is that right?

Mr. COCKER. It was made September 3, due October 15.

Mr. SIMON. And the last of these loans was paid off on August 18, 1948?

Mr. COCKER. That is right.

Mr. SIMON. And since that time he did not have occasion to borrow at your bank?

Mr. COCKER. That is right.

Mr. SIMON. Except for two secured loans made August and September of 1940, were all of the loans unsecured loans in amounts varying from \$500 to \$2,500?

Mr. COCKER. That is right, except there was an unsecured loan of \$3,000.

Mr. SIMON. All, except for the two secured loans, were all between \$3,000 and \$5,000?

Mr. COCKER. That is right.

Mr. SIMON. And no loans made after August 1948?

Mr. COCKER. That is right.

The CHAIRMAN. Without objection, this record will be made a part of the record.

(The information referred to is herewith inserted.)

Mr. SIMON. Have you brought with you the deposit slips of Clyde L. Powell for his deposits in his checking account at the Riggs Bank?

Mr. COCKER. Yes, sir.

Mr. SIMON. Are there a total of 259 deposit slips?

Mr. COCKER. No, sir, I believe there are 260.

Mr. SIMON. Excuse me. And for convenience in identification, you have numbered them 1 to 260?

Mr. COCKER. That is right.

Mr. SIMON. And permitted us to have them photostated?

Mr. COCKER. That is right.

| DATE OFFICER MEMO | PAYER ENDORSE - COLLATERAL | NO.    | DATE     | AMOUNT  | MEMO  | DEBIT  | CREDIT  | DATE            | BALANCE     |
|-------------------|----------------------------|--------|----------|---------|-------|--------|---------|-----------------|-------------|
| MCM 6             | CLYDE L POWELL             | 81100  | 10/15/37 | 500 00  |       |        |         | SEP 3 '37       | 500 00      |
| MCM 6             | CLYDE L POWELL             |        |          |         |       |        |         |                 |             |
|                   | THEODOR B NICHSON          | 82191  | 11/15/37 | 1500 00 |       |        |         | OCT 1 '37       | 1500 00     |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 82191  | 125 00  | NOV 15 '37      | 1375 00     |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 82191  | 125 00  | DEC 15 '37      | 1250 00     |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 82191  | 125 00  | JAN 15 '38      | 1125 00     |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 82191  | 125 00  | FEB 15 '38      | 1000 00     |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 82191  | 125 00  | MAR 15 '38      | 875 00      |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 82191  | 875 00  | APR 29 '38      | 000 00      |
| MCM 6             | CLYDE L POWELL             | 88900  | 5/7/38   | 1500 00 |       |        |         | APR 29 '38      | 1500 00     |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | JUN 9 '38       | 1375 00     |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | JUL 7 '38       | 1250 00     |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | AUG 8 '38       | 1125 00     |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | 9/9/38          | 1000 00     |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | OCT 8 '38       | 875 00      |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | NOV 7 '38       | 750 00      |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | DEC 9 '38       | 625 00      |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | JAN 10 '39      | 500 00      |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | FEB 8 '39       | 375 00      |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | MAR 7 '39       | 250 00      |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | APR 7 '39       | 125 00      |
|                   | CLYDE L POWELL             |        |          |         | A/O   | 88900  | 125 00  | MAY 1 '39       | 000 00      |
| MCM 5             | CLYDE L POWELL             | 60821  | 3/18/40  | 1000 00 |       |        |         | JUN 9 '39       | 1000 00     |
|                   | CLYDE L POWELL             |        |          |         |       | 60821  | 1000 00 | MAR 8 '40       | 000 00      |
| H 6               | CLYDE L POWELL             | 69579  | 10/14/40 | 1500 00 |       |        |         | AUG 14 '40      | 1500 00     |
| HGH 3             | CLYDE L POWELL             | 61280  | 2/25/41  | 5000 00 |       |        |         | AUG 26 '40      | 6500 00     |
|                   | CLYDE L POWELL             |        |          |         |       | 69597  | 1500 00 | AUG 26 '40      | 5000 00     |
| MCM 3             | CLYDE L POWELL             | 612450 | 1/9/41   | 5000 00 |       |        |         | 10000 00        | SEP 9 '40   |
|                   | CLYDE L POWELL             |        |          |         |       | 612380 | 5000 00 |                 |             |
|                   | CLYDE L POWELL             |        |          |         |       | 612450 | 5000 00 |                 |             |
| MCM 5             | CLYDE L POWELL             | 71417  | 1/6/41   | 1500 00 |       |        |         | 1500 00         | OCT 7 '40   |
|                   | CLYDE L POWELL             | 75459  | 4/7/41   | 750 00  |       |        |         | 750 00          | MAY 6 '41   |
|                   | CLYDE L POWELL             |        |          |         |       | 71417  | 1500 00 | 00              | APR 7 '41   |
|                   | CLYDE L POWELL             |        |          |         |       | 75459  | 750 00  | 00              |             |
|                   | CLYDE L POWELL             | 6600   | 12/1/41  | 2000 00 | 41 33 |        |         | 2000 00         |             |
|                   |                            |        |          |         |       |        |         | BALANCE FORWARD | BALANCE FWD |

THE RIGGS NATIONAL BANK OF WASHINGTON, D. C.  
LIABILITY LEDGER

344 - Reserve Bank Ins., 11 - 295-8332-745

NAME CLYDE L POWELL

FORM NO 2

DO NOT CONFUSE WITH LIABILITY OF CLYDE L POWELL

REPORTED TO C. B.

| DATE OFFICER MEMO | PAYER, ENDORSER, COLLATERAL | NOTES MADE |          |             | AMOUNT PAID |        | DIRECT UNSECURED |          | DIRECT SECURED |  | BALANCE FWD | DATE      | LIBRARY  |
|-------------------|-----------------------------|------------|----------|-------------|-------------|--------|------------------|----------|----------------|--|-------------|-----------|----------|
|                   |                             | NO.        | DATE DUE | AMOUNT PAID | INTEREST    | PAID   | REMAINDER        | PAID     | REMAINDER      |  |             |           |          |
|                   |                             |            |          |             |             |        |                  | 2,000.00 |                |  |             | DEC 1 41  | 2,000.00 |
|                   |                             |            |          |             |             |        |                  | 2,000.00 |                |  |             | DEC 1 41  | 2,000.00 |
| MCM 5             | CLYDE L POWELL              | 10663      | 1/30/42  | 2,000.00    | 14.57       | 66.00  | 2,000.00         |          |                |  |             | JAN 30 42 | 1,000.00 |
| MCM 5             | CLYDE L POWELL              | 10078      | 3/31/42  | 1,000.00    | 4.57        | 06.03  | 2,000.00         | 1,000.00 |                |  |             | MAR 27 42 | .00      |
|                   | CLYDE L POWELL              |            |          |             |             |        | 1,000.00         |          |                |  |             | MAR 30 42 | 2,500.00 |
| MCM 5             | CLYDE L POWELL              | 10600      | 6/29/42  | 2,500.00    | 21.40       |        |                  |          |                |  |             | JUN 29 42 | 2,500.00 |
| MCM 5             | CLYDE L POWELL              | 10200      | 7/29/42  | 2,500.00    | 21.40       | 36.00  | 2,500.00         |          |                |  |             | JUL 28 42 | 1,500.00 |
| MCM 5             | CLYDE L POWELL              | 10223      | 10/29/42 | 1,500.00    | 14.75       | 53.30  | 2,500.00         | 1,500.00 |                |  |             | NOV 28 42 | 2,500.00 |
| MCM 5             | CLYDE L POWELL              | 10222      | 10/29/42 | 1,500.00    | 14.75       |        |                  |          |                |  |             |           |          |
| MCM 5             | CLYDE L POWELL              | 10197      | 6/30/43  | 1,100.00    | 13.30       | 80.52  | 2,500.00         |          |                |  |             | DEC 28 42 | 2,500.00 |
| MCM 5             | CLYDE L POWELL              | 10204      | 7/31/43  | 1,500.00    | 18.91       |        |                  | 1,100.00 |                |  |             | MAR 29 43 | 1,100.00 |
|                   | CLYDE L POWELL              |            |          |             |             |        |                  | 2,600.00 |                |  |             | APR 26 43 | 2,600.00 |
| MCM 5             | CLYDE L POWELL              | 10499      | 12/25/43 | 1,500.00    | 18.44       | 125.04 | 1,500.00         |          |                |  |             | JUN 27 43 | 1,500.00 |
|                   | CLYDE L POWELL              |            |          |             |             |        |                  | 1,500.00 |                |  |             |           |          |
|                   | CLYDE L POWELL              |            |          |             |             | 104.97 | 1,500.00         |          |                |  |             | OCT 23 43 | .00      |
| MCM 5             | CLYDE L POWELL              | 10440      | 6/12/44  | 2,500.00    | 42.71       |        |                  |          |                |  |             | FEB 10 44 | 2,500.00 |
| MCM 5             | CLYDE L POWELL              | 10320      | 7/17/44  | 2,500.00    | 21.20       | 24.42  | 2,500.00         |          |                |  |             | JUN 17 44 | 2,500.00 |
| MCM 5             | CLYDE L POWELL              | 10300      | 12/17/44 | 2,500.00    | 21.20       | 251.32 | 2,500.00         |          |                |  |             | SEP 11 44 | 2,500.00 |
|                   | CLYDE L POWELL              |            |          |             |             |        |                  |          |                |  |             | OCT 11 44 | .00      |
| MCM 5             | CLYDE L POWELL              | 10747      | 5/7/45   | 2,500.00    | 21.25       |        |                  |          |                |  |             | JAN 9 45  | 2,500.00 |
| MCM 5             | CLYDE L POWELL              | 10740      | 12/1/45  | 2,500.00    | 21.25       | 267.47 | 2,500.00         |          |                |  |             | SEP 7 45  | 2,500.00 |
| MCM 5             | CLYDE L POWELL              | 10770      | 7/31/45  | 2,500.00    | 19.97       | 274.33 | 2,500.00         |          |                |  |             | DEC 6 45  | 2,500.00 |
|                   | CLYDE L POWELL              |            |          |             |             |        |                  |          |                |  |             | JAN 27 46 | .00      |
| MCMHTB            | CLYDE L POWELL              | 10446      | 5/1/46   | 3,000.00    | 30.00       |        |                  |          |                |  |             | FEB 1 46  | 3,000.00 |
|                   | CLYDE L POWELL              |            |          |             |             |        |                  |          |                |  |             | MAY 1 46  | 3,000.00 |
| MCMHTB            | CLYDE L POWELL              | 10426      | 7/30/46  | 3,000.00    | 30.00       | 266.45 | 3,000.00         |          |                |  |             | JUL 30 46 | 1,500.00 |
| MCM 4             | CLYDE L POWELL              | 10377      | 10/30/46 | 1,500.00    | 19.80       | 294.26 | 3,000.00         | 4,500.00 |                |  |             | OCT 28 46 | .00      |
| PD 4              | CLYDE L POWELL              | 10100      | 2/10/47  | 2,000.00    | 20.00       | 303.77 | 1,500.00         |          |                |  |             | NOV 17 46 | 2,000.00 |
|                   | CLYDE L POWELL              |            |          |             |             |        |                  |          |                |  |             | FEB 11 47 | .00      |
| MCM 4             | CLYDE L POWELL              | 10404      | 7/31/47  | 2,000.00    | 40.00       |        |                  |          |                |  |             | MAR 31 47 | 3,000.00 |
| MCM 5             | CLYDE L POWELL              | 10307      | 12/1/47  | 3,000.00    | 29.80       | 354.04 | 3,000.00         |          |                |  |             | APR 31 47 | 3,000.00 |
|                   | CYLYDE L POWELL             |            |          |             |             |        |                  |          |                |  |             | DEC 1 47  | .00      |
| MCM 4             | CLYDE L POWELL              | 10201      | 2/15/48  | 2,500.00    | 25.00       |        |                  |          |                |  |             | DEC 15 47 | 2,500.00 |
|                   | CLYDE L POWELL              |            |          |             |             |        |                  |          |                |  |             | MAR 16 48 | .00      |
|                   | CLYDE L POWELL              |            |          |             |             |        |                  |          |                |  |             | APR 19 48 | 2,500.00 |
| MCM 5             | CLYDE L POWELL              | 10220      | 7/12/48  | 1,500.00    | 14.99       | 195.39 | 2,500.00         | 2,500.00 |                |  |             | MAY 19 48 | 2,500.00 |
| MCM 5             | CLYDE L POWELL              | 10221      | 7/12/48  | 1,500.00    | 14.99       |        |                  |          |                |  |             | MAY 19 48 | 2,500.00 |
|                   | CLYDE L POWELL              |            |          |             |             |        |                  |          |                |  |             | MAY 18 48 | .00      |

THE FEDERAL NATIONAL BANK OF WASHINGTON, D. C.

The CHAIRMAN. Without objection, the deposit slips will be made a part of the record as an exhibit rather than to be printed in the record.

Mr. SIMON. Have you also brought with you the ledger accounts of the Riggs National Bank for the checking account of Clyde Powell?

Mr. COCKER. Yes, sir.

Mr. SIMON. And those accounts starting December of 1938?

Mr. COCKER. November 1 of 1938.

Mr. SIMON. November 1 of 1938, and they run down through September 9, 1954; is that right?

Mr. COCKER. That is right.

Mr. SIMON. And you have permitted us to have those photostated?

Mr. COCKER. Yes, sir.

The CHAIRMAN. These records will be made a part of the record as an exhibit and will not be printed in the record.

Mr. SIMON. On June 2, 1948, did Clyde Powell make an application for a draft on the Riggs National Bank in the amount of \$8,486?

Mr. COCKER. Yes, sir.

Mr. SIMON. Who was that draft payable to?

Mr. COCKER. Rocco DeGrazia.

Mr. SIMON. That is spelled R-o-c-c-o D-e-G-r-a-z-i-a?

Mr. COCKER. Yes, sir.

Mr. SIMON. And in the left-hand corner of the application, is there a place under which the city or country on which the draft is to be drawn?

Mr. COCKER. Yes, sir.

Mr. SIMON. And that indicates Chicago, Ill.?

Mr. COCKER. Yes.

Mr. SIMON. Do your records indicate how Mr. Powell paid for that draft?

Mr. COCKER. Yes, sir.

Mr. SIMON. How did he pay for it?

Mr. COCKER. He gave us five \$1,000 bills and seven \$500 bills.

Mr. SIMON. That is currency, of course?

Mr. COCKER. Currency, yes, sir.

Mr. SIMON. Did your bank then issue the draft No. 23978, dated June 2, 1948, to the order of Rocco DeGrazia, for \$8,486?

Mr. COCKER. Yes, sir.

Mr. SIMON. The draft was drawn on the Continental, Illinois National Bank & Trust Co. of Chicago; is that right?

Mr. COCKER. That is right.

Mr. SIMON. And subsequently the draft was cashed, purporting to bear the signature of Mr. DeGrazia, and cashed in the Melrose Park National Bank? Is that correct?

Mr. COCKER. I don't know whether it was cashed or not. I can't tell that.

Mr. SIMON. Doesn't the reverse side bear his endorsement?

Mr. COCKER. It bears his endorsement, but it could have been deposited.

Mr. SIMON. Either deposited or cashed at the Melrose Park National Bank in Melrose Park, Ill.?

Mr. COCKER. That is right.

The CHAIRMAN. Without objection, these records will be made a part of the record as an exhibit.

Mr. SIMON. On December 21, 1953, did Mr. Powell make application to the Riggs National Bank for two cashier's checks to the order of W. C. and A. N. Miller Development Co., Washington, D. C.?

Mr. COCKER. Yes, sir.

Mr. SIMON. One of those was for \$5,000 and one for \$6,000; is that right?

Mr. COCKER. That is right, sir.

Mr. SIMON. And on that day, did your bank issue two cashier's checks to the order of W. C. and A. N. Miller Development Co. for \$5,000 and \$6,000 respectively?

Mr. COCKER. Yes, sir.

Mr. SIMON. And those checks or cashier's checks bear the stamp of that payee, that they were deposited to its account at the Riggs National Bank?

Mr. COCKER. Yes, sir.

Mr. SIMON. Do you know how Mr. Powell paid for those drafts?

Mr. COCKER. No, sir.

Mr. SIMON. Did Mr. Powell have a safe-deposit box in the Riggs National Bank?

Mr. COCKER. Yes, sir.

Mr. SIMON. The checks were issued on December 21, 1953; is that right?

Mr. COCKER. That is right.

Mr. SIMON. Did Mr. Powell enter his safe deposit box on that day?

Mr. COCKER. According to the safe deposit box records, yes, sir.

Mr. SIMON. According to your records he entered the box on September 1, 1953?

Mr. COCKER. Yes, sir.

Mr. SIMON. And that day purchased the two checks?

Mr. COCKER. Yes, sir.

Mr. SIMON. He had a checking account at your bank, of course?

Mr. COCKER. Yes.

Mr. SIMON. Were the drafts or cashier's checks to which you have just referred paid to by a check on his checking account?

Mr. COCKER. I haven't looked; no, sir.

Mr. SIMON. They were not paid for by a check on his checking account?

Mr. COCKER. No, sir.

Mr. SIMON. And he did enter his safe deposit box on that date?

Mr. COCKER. That is right.

The CHAIRMAN. Did he buy these cashier's checks with cash or currency?

Mr. COCKER. There is no indication on the draft application with what he paid for them.

Mr. SIMON. Do I understand, Mr. Cocker, that the reason you know that he paid for the DeGrazia draft with the \$1,000 and \$500 bills, that at that time you were required to report large currency transactions, and in 1953 that requirement no longer existed?

Mr. COCKER. Well, that is right, in effect, yes. We were required back in 1948 to file a report with the Federal Reserve on any large unusual currency transactions, but in 1953 it was more or less left to our discretion as to whether or not we were to report these things to the Federal Reserve.

Mr. SIMON. And on the first draft you did so report the transaction?

Mr. COCKER. That is right.

Mr. SIMON. On the second you made no entry either way?

Mr. COCKER. That is right.

The CHAIRMAN. Do you know whether he did or did not purchase this \$11,000 worth of cashier's checks with currency?

Mr. COCKER. No, sir.

The CHAIRMAN. You have no way of knowing whether he did or did not?

Mr. COCKER. No, sir.

The CHAIRMAN. But you do know that he did not purchase them by writing a check on your bank?

Mr. COCKER. That is right, sir.

Mr. SIMON. Mr. Cocker, did Mr. Powell, on July 18, 1950, rent safe deposit box G-94 at your bank?

Mr. COCKER. Yes, sir.

Mr. SIMON. Prior to that date, on July 15, 1938, had he rented safe-deposit box No. E-920?

Mr. COCKER. Yes, sir. That may be 1939, July 15, 1939.

Mr. SIMON. July 15, 1939, I think that is right.

Mr. COCKER. That is right.

Mr. SIMON. And he occupied box E-920 from July 15, 1939, to July 18, 1950?

Mr. COCKER. That is right.

Mr. SIMON. You have with you a record of each entry into the box?

Mr. COCKER. Yes, sir.

Mr. SIMON. Do they average about twice a month?

Mr. COCKER. I hadn't averaged it out, sir. I don't know.

Mr. SIMON. I think you will find many months it was 3 or 4 times and some months it was just once, but I think you will find it was at least twice a month he went into the box.

On July 18, he surrendered box E-920 and rented box G-94.

Mr. COCKER. That is right.

Mr. SIMON. Is G-94 a bigger box than E-920?

Mr. COCKER. Yes, sir.

Mr. SIMON. How big was box E-920?

Mr. COCKER. E-920 was one of the smaller boxes. It is 1 inch deep, 5 inches wide, 22 inches long.

Mr. SIMON. And he surrendered that for the bigger box in 1950, which was how big?

Mr. COCKER. The G-94 was 2 inches deep, 5 inches wide, and 22 inches long.

Mr. SIMON. Just twice as big?

Mr. COCKER. Twice the depth.

Mr. SIMON. As you may or may not recall, the newspapers of April 13, 1954, record that Mr. Powell left the Federal Housing Administration on that day, and the President announced the so-called housing scandals on April 13, 1954.

Does your record show whether Mr. Powell entered his box on that date?

Mr. COCKER. Yes, sir.

The CHAIRMAN. He did enter the box on that date?

Mr. COCKER. He did enter the box, that is right.

The CHAIRMAN. What hour? Does it show the hour?

Mr. COCKER. It is 1:23.

Mr. SIMON. I am sorry, he went in at 1:14 and out at 1:23?

Mr. COCKER. He entered at 1:14 and left at 1:23.

Mr. SIMON. That would be 9 minutes in the box?

Mr. COCKER. That is right.

Mr. SIMON. And that would be 1:23 in the afternoon, I take it?

Mr. COCKER. Yes, sir.

Mr. SIMON. You are not open in the morning.

Mr. COCKER, on February 3, 1949, did your bank receive a Western Union money order for \$1,500 from Los Angeles, Calif., to deposit that amount to the credit of Clyde L. Powell?

Mr. COCKER. Yes, sir.

Mr. SIMON. On August 26, 1947, did your bank receive a Western Union money order from New York, N. Y., to deposit \$1,000 to the account of Clyde L. Powell?

Mr. COCKER. Yes.

Mr. SIMON. On October 1, 1947, did your bank receive a Western Union money order to deposit \$8,000 to the account of Clyde L. Powell, which came from Chicago?

Mr. COCKER. Well, the telegram is dated October 1. It looks as though we may have received it on October 2.

Mr. SIMON. And that was from Chicago?

Mr. COCKER. That is right.

Mr. SIMON. And it was to deposit \$8,000 to the account of Clyde L. Powell?

Mr. COCKER. Yes, sir.

Mr. SIMON. Mr. Chairman, we have here photostat copies of travel vouchers which Mr. Powell submitted to the Federal Housing Administration for reimbursement of travel, which show that he was in California, New York, and Chicago, on the dates on which those Western Union telegrams were sent to the Riggs Bank.

The CHAIRMAN. The telegrams were sent by Mr. Powell?

Mr. SIMON. Presumably they were sent by him and—

The CHAIRMAN. Does your record show the money was wired by Mr. Powell?

Mr. COCKER. That is what the telegram says; yes, sir.

Mr. SIMON. And the travel vouchers that he submitted for reimbursement of travel expense showed he was in those cities on those days.

The CHAIRMAN. It will be made a part of the record as an exhibit.

Mr. SIMON. Mr. Cocker, has each of the documents that you have referred to today been listed on a sheet by the Riggs Bank in the ordinary course of its business?

Mr. COCKER. Yes, sir.

Mr. SIMON. Each of them has been previously submitted to this committee so we might make photostats of them?

Mr. COCKER. Yes, sir.

Mr. SIMON. Thank you, sir.

Mr. Bard, at our request have you and others on the staff working with you compiled the statistical information as to the total amount of cash deposited by Mr. Powell in his account in the Riggs National Bank?

Mr. BARD. Yes, sir; from the basis of the deposit slips, recapitulation has been made of the deposits indicated as checks and as the deposits indicated as cash.

Mr. SIMON. That is from the deposit slips that Mr. Cocker has before him, photostat copies of which Senator Capehart holds in his hand?

Mr. BARD. That is right.

The CHAIRMAN. Was your record made from these deposit slips?

Mr. BARD. Yes, sir.

The CHAIRMAN. What does the record show he deposited in currency in the year?

Mr. SIMON. What is the first year for which you have made the computation?

Mr. BARD. The year 1945.

Mr. SIMON. How much currency was deposited that year?

Mr. BARD. Currency in the amount of \$7,875.

Mr. SIMON. And how much in checks?

Mr. BARD. Checks, \$6,505.

Mr. SIMON. Have you determined how much he received from the Federal Government as his salary in the year 1945?

Mr. BARD. Yes. On a net basis, you understand, Mr. Simon, after withholding tax and Government retirement and other deductions from payroll. His total net salary for the year 1945 was \$6,083.46.

The CHAIRMAN. How much did he deposit in currency that year?

Mr. BARD. \$6,505.05.

Mr. SIMON. The \$6,500 is checks, isn't it?

Mr. BARD. Yes. This would be paid in check. Now there was a travel expense reimbursement for that year.

Mr. SIMON. How much was that?

Mr. BARD. In the amount of \$348.66 or a total received from the Government of \$6,432.06.

The CHAIRMAN. How much did he deposit in currency that year?

Mr. BARD. \$7,875.

The CHAIRMAN. What was the total deposits of both checks and currency?

Mr. BARD. \$14,380.05.

The CHAIRMAN. How much did he state his income was on his tax return?

Mr. BARD. His gross income from the Federal Housing Administration, \$9,241.76.

The CHAIRMAN. Is that all that was shown on the return?

Mr. BARD. Yes. That is his total income for the year.

The CHAIRMAN. What was the next year?

Mr. BARD. The next year was 1946. Cash deposits was \$25,305.10.

The CHAIRMAN. And the check deposits?

Mr. BARD. The check deposits of \$12,427.57.

The CHAIRMAN. Making a total of how much?

Mr. BARD. Total of \$37,732.67.

The CHAIRMAN. What did he show as his income on his return?

Mr. BARD. For the year 1946?

The CHAIRMAN. Gross income.

Mr. BARD. Gross income, \$9,742.20.

The CHAIRMAN. And the next year was what?

Mr. SIMON. In 1946, Mr. Bard, how much did he actually receive from the Federal Government?

Mr. BARD. A total of \$7,595.68, of which——

Mr. SIMON. The difference between what he showed on his tax return as his income and what they actually paid him would be withholding taxes?

Mr. BARD. I would like to correct that. His salary, his net amount of salary was \$7,460.22. The travel of \$135.46 probably was not a reportable item. It was reimbursement of expenditures.

The CHAIRMAN. Now the next is what?

Mr. BARD. 1947.

The CHAIRMAN. How much was the currency deposits?

Mr. BARD. Currency deposits, \$15,140.

The CHAIRMAN. Check deposits?

Mr. BARD. Check deposits was \$24,396.84.

The CHAIRMAN. What was his income on his return?

Mr. BARD. His gross income, \$9,544.86.

The CHAIRMAN. And the total of deposits and cash was how much; that is, checks and currency deposits?

Mr. BARD. \$39,536.84.

The CHAIRMAN. That was the year——

Mr. BARD. The year 1947.

The CHAIRMAN. Now 1948, how much was deposited?

Mr. BARD. May I state his salary for that year, net amount, \$7,734.22 and there was \$529.14 reimbursement for travel.

The CHAIRMAN. What was the deposits in 1948?

Mr. BARD. 1948 the cash deposits was \$28,500.

The CHAIRMAN. Cash deposits, \$28,500?

Mr. BARD. That is right.

The CHAIRMAN. Check deposits?

Mr. BARD. \$24,746.84.

The CHAIRMAN. Making a total of what?

Mr. BARD. \$53,246.84.

The CHAIRMAN. What was the return?

Mr. BARD. The return for the year 1948 shows gross income of \$9,624.45.

The CHAIRMAN. What was the deposits in 1950?

Mr. BARD. May I state his salary for that year?

The CHAIRMAN. Yes.

Mr. BARD. Salary as indicated by the net amount was \$8,052.71, and there was \$866.57 of reimbursement for travel.

The CHAIRMAN. What was his deposits in 1949?

Mr. BARD. The cash deposit was \$19,700.

The CHAIRMAN. That is the currency deposits?

Mr. BARD. Yes; currency deposits. Check deposits, \$9,833.94, for a total of \$29,533.94.

The CHAIRMAN. What was his salary that year?

Mr. BARD. His gross salary for the year reported was \$9,987.80.

The CHAIRMAN. And the gross amount of his returns?

Mr. BARD. The amount of salary from——net amount from the office was \$8,295.56, with \$598.25 worth of travel reimbursement.

The CHAIRMAN. The year 1950?

Mr. BARD. The year 1950, there was no cash deposits.

The CHAIRMAN. In 1950 there was no cash?

Mr. BARD. No cash.

The CHAIRMAN. 1951 was there any cash?

Mr. BARD. No. May I finish with 1950?

The CHAIRMAN. Was there any 1950?

Mr. BARD. In 1950, no cash.

The CHAIRMAN. Any cash in 1951?

Mr. BARD. No cash deposits in 1951?

The CHAIRMAN. Any cash deposits in 1952?

Mr. BARD. None in 1952.

The CHAIRMAN. Any in 1953?

Mr. BARD. \$3,200 in 1953.

The CHAIRMAN. What were the check deposits in 1950?

Mr. BARD. \$7,418.32.

The CHAIRMAN. His income was what?

Mr. BARD. His income for 1953 was \$10,514.36.

The CHAIRMAN. What was his gross?

Mr. BARD. The net amount that he received from the Government was \$8,410.88, with \$381.55 of travel reimbursement.

The CHAIRMAN. And in 1951, what was the currency deposits and checks deposited?

Mr. BARD. There was no currency deposits in 1951. Checks, \$8,125.89, and his gross income for 1951 was \$11,021.29. The net amount was \$8,538.15, with \$490.95 travel reimbursement.

The CHAIRMAN. And 1952?

Mr. BARD. 1952 there was no cash deposits. Check deposits amounted to \$11,131.34.

The CHAIRMAN. And his gross income?

Mr. BARD. His gross income—

The CHAIRMAN. As shown by his tax return.

Mr. BARD. As shown by his tax return, \$11,650. The net amount, as shown by the FHA records, was \$8,864.70, and \$475.51 travel reimbursement.

The CHAIRMAN. And 1953?

Mr. BARD. 1953, there was \$3,200 in cash deposits, and \$9,690.88 in checks, and his income-tax return for 1953 shows a gross income of \$11,983.95.

The CHAIRMAN. The year that he discontinued making cash deposits is the year that he got the larger safety deposit box, was it?

Mr. BARD. I believe that is what Mr. Cocker testified, that he changed deposit boxes in 1950.

The CHAIRMAN. What was the total amount of currency deposited in those 4 years of 1945 through 1949?

Mr. BARD. The largest years were 1946 through 1949. 1945, of which there was \$7,875 would be—

Mr. SIMON. The total of all cash deposits is how much, Mr. Bard?

Mr. BARD. The Senator asked for 4 years.

Mr. SIMON. All you have to do is take \$10,000 off the total. \$7,000 in 1945, and \$3,000 in 1953; is that right?

Mr. BARD. Do you mind if I finish?

The CHAIRMAN. Let him figure it.

Mr. BARD. For the years 1945-49, inclusive, the cash deposits were \$96,520.10.

The CHAIRMAN. Cash deposits in those 4 years or 5?

Mr. BARD. Five years, sir.

The CHAIRMAN. Was \$96,000—

Mr. BARD. \$520.10.

The CHAIRMAN. What was the total of the check deposits above his income from the FHA?

Mr. BARD. His check deposits above his income?

The CHAIRMAN. Yes.

Mr. BARD. Sir, I don't have that figure for the simple reason that some of the checks that have been deposited are proceeds from money orders and notes and things like that, as distinguished from his actual salary.

Mr. SIMON. Some of his salary checks were not deposited in the bank?

Mr. BARD. I can appreciate that. There were also checks deposited that did not represent salary.

Mr. SIMON. You have there, I believe, Mr. Bard, the total Government salary during the period and the total amount of checks that he received?

Mr. BARD. That is right.

Mr. SIMON. And the total amount of cash.

Mr. BARD. His total salary for the full period of 1945 through April of 1954—

Mr. SIMON. Which is almost 10 years.

Mr. BARD. Almost 10 years, is \$75,793.49. That is not the gross salary. That is the net amount.

Mr. SIMON. That is the amount that he received by check from the Government?

Mr. BARD. That is right.

The CHAIRMAN. What is the total deposits for the same period?

Mr. BARD. Total deposits for the same period, cash—

The CHAIRMAN. Both cash and check?

Mr. BARD. Of cash deposits, \$101,220.10.

The CHAIRMAN. How much for check deposits?

Mr. BARD. The check deposits was \$117,110.79.

The CHAIRMAN. Or a total of how much?

Mr. BARD. A total of \$218,630.89.

The CHAIRMAN. Which is how much more than his salary and income as shown by his tax returns?

Mr. BARD. May I add to his salary the amount of deposit for travel of \$4,471.88. The excess of the deposits over the salary and the travel expense was \$138,365.53.

Mr. SIMON. Mr. Bard, the \$138,000 of excess deposits during this period over his income from the Federal Government does not include, as I understand it, the \$19,400 represented by money orders, or cashier's checks that he bought from the Riggs Bank, the one for Rocco De Grazia paid for in cash and two to W. C. and A. N. Miller Co., paid for either in cash or by a check on some other bank?

Mr. BARD. That is right. This does not include that.

Mr. SIMON. So that his dealings with the Riggs Bank during this period indicate receipts of \$158,000 in excess of his Government salary; is that right?

Mr. BARD. That is right, sir.

Mr. SIMON. Just one more question: You have examined his tax returns for this period of time?

Mr. BARD. Yes, sir.

Mr. SIMON. Does any year during the period we have discussed show any income whatever other than his salary from the Federal Government?

Mr. BARD. May I go back, just to be sure?

No, sir. There was no additional income.

The CHAIRMAN. Your answer is that on his tax returns he did not show any income other than the income from the Federal Government?

Mr. BARD. That is right, sir.

The CHAIRMAN. Thank you very much, gentlemen. We appreciate your coming.

Mr. MAHER. Mr. Chairman, my name is Daniel B. Maher. I appear here on behalf of the Defendant Powell. May I be permitted to ask two questions of this witness?

The CHAIRMAN. If you will tell us what they are during the noon hour we will permit you to do so right after lunch.

Mr. MAHER. I beg pardon?

The CHAIRMAN. If you will tell us what the questions are during the noon hour, we will consider it and permit you to do it right after lunch.

Mr. MAHER. May I respectfully state to you, Mr. Chairman, that both questions are pertinent to the testimony given by the witness.

The CHAIRMAN. We will bring both the gentlemen back at 2 o'clock and if we consider your questions as pertinent and fair, we will permit you to ask them at 2 o'clock today.

Mr. MAHER. Mr. Chairman, may I respectfully say that the time of the misstatement is when it is uttered. I respectfully ask to ask two questions.

The CHAIRMAN. We will give Mr. Powell a chance to testify later in the day. He can refute any questions or any statement that has ever been made. We have been trying to get him to testify now for about 4 or 5 months.

Mr. MAHER. I am not discussing Mr. Powell. I am discussing the right to cross-examine this witness who has misstated the evidence.

The CHAIRMAN. You have no right to cross-examine witnesses. We will proceed.

Mr. MAHER. I don't expect any right before this committee.

The CHAIRMAN. The next witness will be Mr. Manilow.

Will you be sworn, please? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF NATHAN MANILOW, PARK FOREST, ILL., ETC.

Mr. MANILOW. Yes.

The CHAIRMAN. Please be seated and give your name and address and business connection to the reporter for the official record.

Mr. MANILOW. Nathan Manilow, 105 West Monroe Street, Chicago, Ill.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Manilow, are you associated with American Community Builders?

Mr. MANILOW. Yes, I am, Mr. Simon.

Mr. SIMON. What position do you occupy with American Community Builders?

Mr. MANILOW. Presently I am its president.

Mr. SIMON. You are president?

Mr. MANILOW. That is right.

Mr. SIMON. Who are the stockholders of American Community Builders?

Mr. MANILOW. I am, of course, Philip N. Klutznick.

Mr. SIMON. How much stock do you own?

Mr. MANILOW. Forty-five percent of the stock. I don't know how many shares. I am giving you percentages.

Mr. SIMON. How much of the stock does Mr. Klutznick own?

Mr. MANILOW. He and his associates own 45 percent.

Mr. SIMON. How much did Mr. Klutznick pay for his 45 percent stock interest in American Community Builders?

Mr. MANILOW. Mr. Klutznick was not required to make any cash investment.

Mr. SIMON. He got 45 percent of the stock for free?

Mr. MANILOW. He got 45 percent of the stock as an inducement on my part to come in and join me in this enterprise.

Mr. SIMON. When was that?

Mr. MANILOW. As best as I can recollect it was in 1946.

Mr. SIMON. 1946?

Mr. MANILOW. That is right.

Mr. SIMON. Is that the same Philip Klutznick who was previously Administrator of the Federal Public Housing Administration here in Washington?

Mr. MANILOW. That is correct.

Mr. SIMON. And the stock which in 1946 he got without cost now has a book value of some \$2½ million?

Mr. MANILOW. I don't know what its book value is, Mr. Simon. I don't have the records. I would imagine it must be somewhere in that neighborhood.

Mr. SIMON. Now, the American Community Builders built nine section 608 projects in Park Forest, Ill.; is that right?

Mr. MANILOW. That is right.

Mr. SIMON. Park Forest, Ill., is a few miles southwest of the city of Chicago's southwestern boundary?

Mr. MANILOW. That is right.

Mr. SIMON. About 30 miles from downtown Chicago?

Mr. MANILOW. Generally it is referred to as that. It depends upon what point you pick it up at.

Mr. SIMON. About 30 miles from the Loop?

Mr. MANILOW. That is right.

Mr. SIMON. The FHA mortgages on the 9 section 608 projects totaled approximately \$27 million; did they?

Mr. MANILOW. A little over that, Mr. Simon.

Mr. SIMON. A little over \$27 million?

Mr. MANILOW. That is right.

Mr. SIMON. Then you also built in that project a lot of single-family sale houses?

Mr. MANILOW. More than 3,000 of them.

Mr. SIMON. They were insured by FHA mortgages?

Mr. MANILOW. Both by FHA, VA, building and loans and various and sundry. Most of them, Mr. Simon, by FHA and VA.

Mr. SIMON. What was the approximate total of the FHA mortgages on the single-family houses?

Mr. MANILOW. I would hazard a guess, but I would imagine about \$30 million.

Mr. SIMON. So the FHA mortgages, both section 608 and sale houses totaled about roughly 57 or 58 million dollars?

Mr. MANILOW. It would be correct, Mr. Simon, if you would include VA, because the Veterans' Administration loans on the single families are much more in number than the FHA loans.

Mr. SIMON. I take it you got an FHA commitment to start with?

Mr. MANILOW. For the purposes of construction money generally, as is the procedure generally by builders.

Mr. SIMON. So you had a total of \$58 million of FHA commitments?

Mr. MANILOW. At one time or another.

Mr. SIMON. And roughly 27 or 28 million dollars of those were on section 608 projects, 9 buildings.

Mr. MANILOW. That is correct.

Mr. SIMON. Now after the buildings were substantially completed, did the Federal Housing Administration increase the amount of those mortgages by about \$590,000?

Mr. MANILOW. Yes, they did.

Mr. SIMON. Do you know whether on January 4, 1950, Clyde L. Powell, as Assistant Commissioner, sent a telegram to the director of the Chicago office saying that—

This is to advise you that your recommendation is approved in connection with increasing insured mortgages covering Park Forest Co. projects—

and numbered them—

At the request of Mr. Manilow by telephone I advised the RFC in Chicago of such approval.

Did you know of that telegram?

Mr. MANILOW. I don't recall it, but undoubtedly if you have the record it must be so.

Mr. SIMON. And did you by telephone request Mr. Powell to advise the RFC in Chicago of such approval?

Mr. MANILOW. I wouldn't recall that either, of course. I don't know why I would make any such request. I can recognize the possibility of my having talked to the office about the matter, but I don't know what the nature of the discussion was.

Mr. SIMON. I have before me the original FHA file containing what purports to be the carbon copy of the telegram allegedly sent in 1950 and it has the initials, "CLP" on it, indicating Mr. Powell initialed it and it says as I have indicated. Is there any doubt in your mind that at about January 4, 1950, you called Mr. Powell and asked him to advise RFC of that approval?

Mr. MANILOW. I don't think that I called him to advise him. I would call him to discuss matters with him, but I wouldn't call him to advise him about anything.

Mr. SIMON. I didn't mean to say that. It says here you requested him to advise RFC that the increase had been approved.

Mr. MANILOW. Mr. Simon, it could have been that once the approval had been granted, we at that time also had a loan with the RFC, and

it was important that they, and their records may disclose, Mr. Simon, that they asked me to do this.

The CHAIRMAN. There is no question but what you did get an increase and Mr. Powell did approve it?

Mr. MANILOW. None at all, Senator.

Mr. SIMON. Was RFC the mortgagee on these loans?

Mr. MANILOW. The RFC?

Mr. SIMON. Yes. Were they the mortgagee?

Mr. MANILOW. I don't see how they could be the mortgagee, Mr. Simon.

Mr. SIMON. How is that?

Mr. MANILOW. How could they be the mortgagee?

Mr. SIMON. Why would Mr. Powell be advising RFC of the approval?

Mr. MANILOW. Because we at that time had borrowed money from the RFC.

Mr. SIMON. You had borrowed money from the RFC in addition to the FHA commitments?

Mr. MANILOW. That is right.

The CHAIRMAN. Your recollection is then, that RFC did not buy any of the mortgage?

Mr. MANILOW. No.

The CHAIRMAN. You simply made a loan from RFC?

Mr. MANILOW. That is right.

The CHAIRMAN. Do you remember the amount of that loan?

Mr. MANILOW. No, I do not. I think it was more than once that we borrowed money from them. Once I believe we borrowed money from them in connection with our home-for-sale activity, and the improvement of that area.

Mr. SIMON. The increase in the mortgages was \$590,000, is that right?

Mr. MANILOW. That is right.

Mr. SIMON. From \$27,200,000, to \$27,800,000?

Mr. MANILOW. I recall. That seems to be the figure.

Mr. SIMON. What was the reason for the increase, Mr. Manilow?

Mr. MANILOW. We had increased costs during the period of construction of very much more than the amount.

Mr. SIMON. In other words, your costs went up so they gave you a higher mortgage?

Mr. MANILOW. That was understood; at the time that if and when we could prove additional increases in costs beyond our control, we would have the opportunity to make application for such increase.

Mr. SIMON. Did you understand that was the procedure, that if costs were higher than you expected you got an increase in the mortgage?

Mr. MANILOW. You had a right to, Mr. Simon.

Mr. SIMON. Have you ever heard of anybody getting his mortgages decreased because costs were lower than he expected?

Mr. MANILOW. Not to my knowledge.

Mr. SIMON. Do you know whether in granting this increase they failed to make an appraisal of the property as of the reproduction cost as of December 31, 1947?

Mr. MANILOW. I would like to have you state that question again, sir.

Mr. SIMON. The law required that in connection with giving one of these mortgages, that the mortgage could not be more than 90 percent of the estimated replacement cost of the property.

Mr. MANILOW. That is right.

Mr. SIMON. It also could not be more than 90 percent of the estimated replacement cost as of December 31, 1947, is that right?

Mr. MANILOW. As of December 31, 1947?

Mr. SIMON. Yes.

It couldn't be more than the lower of those two estimates, whichever was the lowest.

Mr. MANILOW. In connection with the ultimate application, Mr. Simon?

Mr. SIMON. In connection with the section 608 commitment.

Mr. MANILOW. The original application you are talking about?

Mr. SIMON. No, any section 608 mortgage could not be more than the lower of the Commissioner's estimated cost of replacement or Commissioner's estimate of replacement cost on December 31, 1947.

Mr. MANILOW. Is that the expiration date of the act?

Mr. SIMON. No, that is the date Congress put in the law.

You didn't know that was there?

Mr. MANILOW. I should know. I don't recall that date at the moment.

Mr. SIMON. Did you know—

Mr. MANILOW. If that is the date that is undoubtedly so.

Mr. SIMON. Did you know FHA waived that requirement in this case on the ground that the \$590,000 increase was an inconsequential amount?

Mr. MANILOW. No. I know they did not waive it on that account. I am sure they didn't.

Mr. SIMON. I have a letter from Curt C. Mack to Clyde Powell, one paragraph of which says:

It may be said that the amount of increase requested is inconsequential in relation to total mortgage amount, and it is not believed that the Commissioner's risks or interests would be unduly jeopardized by granting the increase requested. It would appear to be perhaps a justification for the increase in rents requested, which averages \$4.91 per unit per month.

Did you know of that ruling by FHA?

Mr. MANILOW. I do not recall it but it must be so.

You are reading from the record, Mr. Simon, but may I at this time direct your attention to the fact that the increase in the loans relating to the Park Forest projects was upon application originally rejected in Washington.

It was recommended by the Chicago office.

Mr. SIMON. And approved by Clyde Powell in Washington, according to the telegram I just read you.

Mr. MANILOW. I am not disputing the record Mr. Simon. I have no way of—

Mr. SIMON. You did get the increase, is that right?

Mr. MANILOW. I am trying, if you will afford me the opportunity please, to show how I think that it is important.

The increase was denied because Mr. ———; I don't remember his name, the General Counsel then of the HHFA, said that in view of the fact that the act under which the original commitments were issued to us, namely, the twenty-seven-million-odd dollars had ex-

pired, and a new act had then been introduced, and as you will recall, Senator, the first part was on the basis of room count, \$1,800 per room, the other was on the basis of unit, \$8,100 per unit, General Counsel for HHFA, the Housing and Home Finance Agency, did not agree with Mr. Bovard, and as I recall it the general counsel for the committee at this time did not agree, and so——

Mr. SIMON. On that——

Mr. MANILOW. This is showing the legality of the procedure because——

Mr. SIMON. We are not questioning the legality.

Mr. MANILOW. Because by law this act was amended so that this increase and increases of this kind could be had.

The CHAIRMAN. All we are interested in is the fact that you did ask for an increase in the mortgage.

You did receive it. Mr. Powell approved it, and Mr. Mack, the chief appraiser, I believe——

Mr. SIMON. Chief underwriter, waived the requirement for an estimate.

The CHAIRMAN. He waived the requirement for an estimate and said it was inconsequential.

I think those are facts.

That is all we are interested in hearing, just the facts.

Mr. Kenney?

Mr. KENNEY. I want to ask a question.

In your application for increase, it was filed on October 25, 1949, to the Chicago FHA office?

Mr. MANILOW. That is right.

Mr. KENNEY. That was denied by FHA?

Mr. MANILOW. That is right.

Mr. KENNEY. Subsequently you went over the heads of FHA to the HHFA; is that right?

Mr. MANILOW. And to the Banking and Currency Committee.

Mr. KENNEY. They overruled FHA?

Mr. MANILOW. They did by recommending this Senate resolution, which passed unanimously, so that this inequity could be corrected.

Mr. KENNEY. Had they instructed FHA to give recognition to your claim?

Mr. MANILOW. I don't know whether I could use the term "instructed," but they were——

Mr. KENNEY. Pressured?

Mr. MANILOW. They were permitted under this procedure to recognize it.

The CHAIRMAN. What year was that, 1949?

Mr. ALTMAN. 1949.

Mr. SIMON. Now, Mr. Manilow, prior to March 1948, did you ask the FHA office in Chicago to permit you to collect 2 months' rent for the final 2 months of your leases, to invest the money in Government bonds and retain the income?

Mr. MANILOW. We did make the request for the right to obtain a 2-month rental security deposit.

We have been doing that.

Mr. SIMON. And to invest the money in the Government bonds and keep the income?

Mr. MANILOW. No. We, by negotiation with the FHA office in Chicago, Mr. Simon, got the right to invest these moneys in schools, in Park Forest; by loaning the moneys to the school districts, in order to enable them to build schools.

Mr. SIMON. But you get interest on it and keep the interest, is that right?

Mr. MANILOW. We lost money. We did not get interest from these school districts, Mr. Simon.

Mr. SIMON. Did you ask FHA, prior to March of 1948, for permission to collect 2 months' rent in advance to invest the money and to keep the interest?

Mr. MANILOW. We might have.

Mr. SIMON. Did you?

Mr. MANILOW. I don't know. I would imagine we probably did.

The CHAIRMAN. You testified yesterday that you did. Your answer yesterday was yes.

Mr. MANILOW. We probably did. I don't have the papers before me.

Mr. SIMON. Isn't it a fact on March 24—and that is a significant date—March 24, 1948, Kelly wrote Powell recommending that you be permitted to do that, and on May 24, 1948, Powell wrote Kelly, approving that conduct?

The CHAIRMAN. I think we should identify Kelly. Was he State FHA director?

Mr. MANILOW. He was State FHA director.

The CHAIRMAN. What was his first name?

Mr. MANILOW. Ed.

The CHAIRMAN. Edward J. Kelly?

Mr. MANILOW. That is right.

Mr. SIMON. Is the fact I have just stated correct?

Mr. MANILOW. I believe it is.

Mr. SIMON. Now on March 11, 1948, which was just preceding Kelly's letter to Powell on this rental business, did you have a business transaction with Clyde Powell?

Mr. MANILOW. Yes, I did.

Mr. SIMON. Would you tell the committee what that was, please?

Mr. MANILOW. I received a telephone call from Mr. Kelly, director of the FHA, whom I held in very high regard, as did everyone else, and asking me if I would do him a favor. I said I would, to such an extent as I could, and he told me that—

Mr. SIMON. Can you place the date of that call, Mr. Manilow?

Mr. MANILOW. It would be very close to the date of the first note transaction. It would have to be within days of it.

Mr. SIMON. Maybe I can help you. Is your telephone number or was it at that time "DI-8306?"

Mr. MANILOW. "GI-?"

Mr. SIMON. "DI."

Mr. MANILOW. "DIversie-8306?"

Mr. SIMON. Yes.

Mr. MANILOW. Yes.

Mr. SIMON. That was your telephone number?

Mr. MANILOW. Yes.

Mr. SIMON. On March 3, 1948, Clyde Powell made a long distance call from his apartment at the Wardman Park to you in Chicago, and

talked to you for 5 minutes. Does that help you to fix the date on which Mr. Kelly called you?

Mr. MANILOW. I say I couldn't recall the exact date, but I say it is all so close. It was within that period.

Mr. SIMON. Did Kelly call you before or after Powell called you?

Mr. MANILOW. My best recollection is he called me before. I would have no reason to discuss the situation I don't think other than that.

Mr. SIMON. What did Kelly say to you?

Mr. MANILOW. He said that Mr. Powell was in a difficult situation, and he would like to have, if I could, me make him a loan of \$7,500.

Mr. SIMON. Did you agree to make the loan?

Mr. MANILOW. I did.

Mr. SIMON. For how long a period of time?

Mr. MANILOW. I made the loan for 90 days.

Mr. SIMON. Mr. Powell's salary at that time was about \$8,000 a year, that is, take-home pay. How did you figure he was going to be able to pay a \$7,500 loan in 90 days when his gross income in that period would only be \$2,000?

Mr. MANILOW. Mr. Simon, I really didn't figure. I wish I had, but I didn't.

Mr. SIMON. So you loaned him the \$7,500?

Mr. MANILOW. That is right.

Mr. SIMON. Was that by having the Merchant's National Bank in Chicago discount a note of Powell's which you endorsed and having them send \$7,500 to Powell at the Riggs Bank?

Mr. MANILOW. Yes. Powell sent me his note, which I endorsed, discounted it at the Merchant's National Bank and directed them to wire the proceeds of that to his account at the Riggs National Bank at Washington.

Mr. SIMON. What was the subject of this 5-minute telephone conversation you had with Powell on March 3, 1948?

Mr. MANILOW. I couldn't say, Mr. Simon. I don't recall it, but I would imagine it had to do with the terms or methods, or the manner by which the proceeds were to get to him.

Mr. SIMON. The note became due on June 9, 1948?

Mr. MANILOW. That is correct.

Mr. SIMON. Was it paid?

Mr. MANILOW. It was not.

Mr. SIMON. It was renewed for another 90 days?

Mr. MANILOW. That is correct.

Mr. SIMON. The second note became due on September 8, 1948?

Mr. MANILOW. That is right.

Mr. SIMON. Was it paid?

Mr. MANILOW. Partially.

Mr. SIMON. So far as the bank was concerned, you paid the bank the full amount of the note?

Mr. MANILOW. They generally, as you know, charge it to your account, or you pay it.

Mr. SIMON. How much of the \$7,500 did Powell pay you?

Mr. MANILOW. \$2,000 and renewal note of \$5,500.

Mr. SIMON. What was the due date of the \$5,500 renewal note?

Mr. MANILOW. It was for 3 months also.

Mr. SIMON. So it would have been due December 8, 1948?

Mr. MANILOW. Must be.

Mr. SIMON. Was that \$5,500 ever paid?

Mr. MANILOW. It was paid but not on the due date.

Mr. SIMON. On the due date?

Mr. MANILOW. Not on the due date.

Mr. SIMON. When was it paid?

Mr. MANILOW. I cannot recall the date.

I don't know the date.

Mr. SIMON. What is your best recollection as to when it was paid?

Mr. MANILOW. The best recollection is that somewhere within a period of 6 months from the date that it was due.

Mr. SIMON. You cannot pin it any closer than 6 months?

Mr. MANILOW. I wish I could.

Mr. SIMON. Six months would be somewhere between December 8, 1949, and—excuse me, somewhere between December 8, 1948, and June 8, 1949; is that right?

Mr. MANILOW. That is right.

Mr. SIMON. And in that 6-month period you cannot tell us any closer than that when it was?

Mr. MANILOW. I am sorry. I wish I could.

The CHAIRMAN. That was the period in which you say he paid you?

Mr. MANILOW. That is the best of my recollection.

Mr. SIMON. Was it paid in check or by cash?

Mr. MANILOW. In cash.

Mr. SIMON. Paid in cash.

Mr. MANILOW. That is right.

Mr. SIMON. What bills did he give you?

Mr. MANILOW. I don't recall that. I know there were nothing bigger than hundred-dollar bills.

Mr. SIMON. Nothing bigger than hundred-dollar bills?

Mr. MANILOW. That is right.

Mr. SIMON. Where were you when he paid you the \$5,500?

Mr. MANILOW. I was in Washington.

Mr. SIMON. Where in Washington?

Mr. MANILOW. I could have only been at 1 or 2 places. Generally, I stay at either the Statler or the Mayflower Hotels.

Mr. SIMON. Did he come to your hotel and pay it to you?

Mr. MANILOW. To the best as I recall.

Mr. SIMON. Did anybody see him pay you the money?

Mr. MANILOW. No, sir.

Mr. SIMON. What did you do with the \$5,500?

Mr. MANILOW. I kept it.

Mr. SIMON. Did you deposit it in a bank anywhere?

Mr. MANILOW. Unfortunately, I did not.

Mr. SIMON. You did not?

Mr. MANILOW. No.

Mr. SIMON. What did you do with the money then?

Mr. MANILOW. I consumed it over a period of time.

Mr. SIMON. You just spent it?

Mr. MANILOW. That is right.

Mr. SIMON. You carried the money around in your pocket until it was gone?

Mr. MANILOW. I don't imagine I did. I imagine I carried parts of it with me, and the remainder probably was around my office.

Mr. SIMON. Just sitting around the office?

Mr. MANILOW. Not sitting around the office. I have an office that has an appreciable amount of privacy. I might have kept it in my file desk. I don't recall.

Mr. SIMON. You don't recall what you did with this \$5,500 cash?

Mr. MANILOW. I have no idea. It might have been done over a period of a year.

Mr. SIMON. Took you a year to spend it?

Mr. MANILOW. It might have.

Mr. SIMON. Why didn't you deposit it in a bank?

Mr. MANILOW. I carry sums of money around my office. It wasn't a transaction that I was particularly anxious to discuss and tell all of my people in the office about.

Mr. SIMON. I should think you would be proud of the fact you got the money back and would deposit it in your account.

Mr. MANILOW. I wish today, to God, that he either hadn't paid it or he had paid it in the manner which the others got paid, and I wouldn't have this problem.

Mr. SIMON. When did you file your 1949 income-tax return?

Mr. MANILOW. I filed that return, as required by law. I presume sometime prior to March 15, 1950.

Mr. SIMON. And it would have to be after January 1, 1950?

Mr. MANILOW. That is right.

Mr. SIMON. So you filed your income-tax return for the year 1949 somewhere between 6 and 15 months after you claimed Clyde Powell paid you this \$5,500 in cash.

Mr. MANILOW. That is right.

Mr. SIMON. Yet, on your 1949 income-tax return, didn't you claim this \$5,500 from Clyde Powell as a bad debt, and give December 31, 1949, as the day on which it became a bad debt?

Mr. MANILOW. It was the way it was included in my income-tax return, unfortunately; yes.

Mr. SIMON. The income-tax return that you filed in 1950 showed this \$5,500 as a bad debt, giving the date of December 31, 1949, as the date on which it became a bad debt; is that right?

Mr. MANILOW. That must be right.

Mr. SIMON. And yet you now say that some 6 to 11 months earlier he had paid you; is that right?

Mr. MANILOW. That is right.

The CHAIRMAN. Which is correct?

Mr. MANILOW. The fact is, Senator, that I did not advise my people in my office of the fact that I had received this money.

Mr. SIMON. But you did sign your income-tax return, didn't you?

Mr. MANILOW. I did that.

Mr. SIMON. There were only 3 items on your income-tax return for the year 1949 of losses; just 3.

Mr. MANILOW. Yes.

Mr. SIMON. One of them was "C. Powell, \$5,500." Didn't you see that before you sent your tax return?

Mr. MANILOW. However, Mr. Simon, what you bring out there makes it self-evident that I certainly was not attempting to conceal any transaction with Mr. Powell. If I put his name in there and wrote the transaction into the income-tax return, it was not something I was trying to conceal.

The CHAIRMAN. Mr. Manilow, after you testified that Powell paid you the \$5,500 the early part of 1949, and yet in the early part of 1950 you filed an income-tax return in which you said he had not paid you, and said it was a bad account and took it as a bad account on your tax return.

Mr. MANILOW. Yes, Senator, but later—I do not remember just how long later, maybe a year and a half or so, or whatever time that was when they generally check your income-tax returns, my accountant came in and told me that item was questioned. I said, I am sorry you had it in there because it has been paid.

Mr. SIMON. Isn't it a fact, Mr. Manilow, it was 2 years later in 1952, that the Internal Revenue Service questioned it and they questioned it only because you had no proof that it was a bad debt because you couldn't prove you had tried to collect it, and the reason that the Internal Revenue Service disallowed it in 1952, which is 3 years after you say it was paid, was simply because you couldn't prove you tried to collect it?

Mr. MANILOW. That may be their position, but I am trying to say to you that when it was called to my attention that they were in the office, asking about this item, I then informed them it had been paid and therefore it had no place in there as an item of bad debt.

Mr. SIMON. Didn't you read your income-tax return before you signed it?

Mr. MANILOW. It may sound silly, but I just cannot tell you now whether I looked or scanned it as carefully as I should.

Mr. SIMON. I don't think there is any occasion to disclose here the total amounts in there, but I think you will agree that they are substantial enough that a man would have an interest in reading his tax return.

Mr. MANILOW. I won't dispute that. I should have.

Mr. SIMON. You say you did not read your tax return before you signed it?

Mr. MANILOW. I say I do not know what prompted me to overlook the item because had I certainly seen it, I would have seen that it was taken out.

Mr. SIMON. At any rate, your testimony is that somewhere between January and June or somewhere between December of 1948 and June of 1949, Powell paid you \$5,500 in cash, that you put it in your pocket, that nobody saw you get the money, and you spent the money over a period of time, that in March of 1950 you claimed \$5,500 as a bad debt, and in 1952, the revenue people disallowed it; is that the story?

Mr. MANILOW. In 1952 I said when it was called to my attention that the revenue people were questioning the item, I informed my people that it had been paid, and should not have been in there.

Mr. SIMON. And you never told that to anybody until after the revenue people had questioned it on the ground that there was no proof of an effort to collect?

Mr. MANILOW. That is right.

Mr. SIMON. Have you been questioned by anybody else within the last 30 days about this item?

Mr. MANILOW. Yes. I have been questioned by the Department—by the Federal Bureau of Investigation and by the Income Tax Department.

Mr. SIMON. Did you tell them the same story you are testifying here today?

Mr. MANILOW. I do not see how I could have told them any other story.

Mr. SIMON. My question is whether you told them the same story you are telling us here today.

Mr. MANILOW. I believe I did.

Mr. SIMON. Did you tell the FBI when you talked to them the \$5,500 had been paid in 1949?

Mr. MANILOW. I told the FBI that I felt that was paid some time within about 6 months after the maturity of the note.

Mr. SIMON. Are you certain that you never told the FBI that it had not been paid?

Mr. MANILOW. As best as I can recollect, I don't see how in the world I could have said it had not been paid.

Mr. SIMON. We are not talking about something now that happened 5 years ago. We are talking about conversation—

Mr. MANILOW. I would say that I could not have said that.

Mr. SIMON. That is not my question. My question is whether in the last 30 days you told the FBI that the \$5,500 note had not been repaid.

Mr. MANILOW. No.

Mr. SIMON. You are certain you did not?

Mr. MANILOW. I feel I am positive.

Mr. SIMON. You are positive you did not tell the FBI in the last 30 days at any time that the \$5,500 note had not been paid?

Mr. MANILOW. That is right.

Mr. SIMON. You are certain of that?

Mr. MANILOW. Yes.

The CHAIRMAN. Mr. Manilow, what—you testified that Mr. Ed Kelly, who was the State FHA director of Illinois, called you and asked you to make this loan to Powell. Did he tell you why you should make it to Powell or tell you the trouble Powell was having?

Mr. MANILOW. He did not give me any details. Senator.

The CHAIRMAN. He did not give you any details?

Mr. MANILOW. I don't recall he did.

The CHAIRMAN. Mr. Kelly has since died, hasn't he?

Mr. MANILOW. That is right. I don't recall any details.

The CHAIRMAN. Did you ever call the fact that Mr. Powell borrowed \$7,500 from you to the attention of any FHA high officials here in Washington?

Mr. MANILOW. No, sir, I did not.

The CHAIRMAN. Who was the FHA Commissioner during that period? That was in 1948, wasn't it?

Mr. MANILOW. That is right.

The CHAIRMAN. Who was the FHA Commissioner during that time?

Mr. MANILOW. As best as I can recall, Mr. Richards.

The CHAIRMAN. Mr. Richards was the Director?

Mr. MANILOW. I think so.

The CHAIRMAN. Did you ever tell Mr. Richards that Mr. Powell had borrowed this money?

Mr. MANILOW. No, I did not.

The CHAIRMAN. Did it seem strange to you that Mr. Powell, a Government employee here—and you knew about the amount of salary he was receiving—had \$5,500 in cash that he could hand you one day?

Mr. MANILOW. Senator, I was so pleased at getting the money that it didn't occur to me. If I had been doing more clear thinking at the time, I would not have made the loan. I was just insistent I wouldn't and that is it.

Unfortunately, I did.

The CHAIRMAN. Did you ever give or loan Mr. Powell any money prior to this or after?

Mr. MANILOW. No, sir, I did not.

The CHAIRMAN. What did your associates—you told them about this?

Mr. MANILOW. No, I did not.

The CHAIRMAN. You kept it a secret?

Mr. MANILOW. It was a loan I made him personally, Senator, and anyone that knows my associate, Mr. Klutznick, knows him to be one of the most respected and honored men of the country, and I just made this a personal matter. It had no relationship whatsoever with regard to the Park Forest endeavors, which, Senator, have been heralded the Nation over as the finest achievement of its kind in housing in America.

There were no windfalls there—

The CHAIRMAN. We do not question that. We are talking about the fact—

Mr. MANILOW. About this unfortunate thing.

The CHAIRMAN. About this \$7,500.

Mr. MANILOW. Senator, I prayed many times and I wish—

The CHAIRMAN. Mr. Powell deposited to his account in the Riggs Bank some hundred thousand dollars in currency over 4 years.

Mr. MANILOW. The facts, Senator, are that I used every effort to collect. The records indicate that. There was nothing secret I have about the transaction, Senator.

I had it done through the banks, and wired to him through the banks.

Certainly the record is clear that I did not try to conceal any part of that transaction as far as the record is concerned.

Mr. SIMON. Except the \$5,500.

Mr. MANILOW. Unfortunately, I wish he had never paid it to me or I wish I had insisted that I was as careful with that, Mr. Simon, as I was in the way he paid the other.

Mr. SIMON. I would like to make the record perfectly clear. It is your testimony that you never—let me put it this way: It is your testimony that every time you talked to the FBI about this you told them the \$5,500 had been repaid?

Mr. MANILOW. That is right.

Mr. SIMON. That is absolutely right?

Mr. MANILOW. That is right.

The CHAIRMAN. Any further questions? Mr. Kenney?

Mr. KENNEY. Mr. Manilow, what is your total investment in Park Forest?

Mr. MANILOW. I tried to ascertain that amount, but it is about several million dollars.

Mr. KENNEY. Mortgages of \$57 million and you had equity requirements so your total investment must have been, including the mortgages, a very substantial amount.

Mr. MANILOW. In addition—we are discussing two things here, I believe: One, the equity investment in Park Forest companies?

The CHAIRMAN. You can give us that if you want to. We will be very glad to get into it because it will show your capital stock is very, very small.

Mr. MANILOW. We did that, but, Senator, you know from the record—

The CHAIRMAN. I know you made big loans but they were repaid later.

Mr. MANILOW. Personally, we borrowed money.

The CHAIRMAN. Repaid out of the proceeds of the mortgage?

Mr. MANILOW. No.

The CHAIRMAN. The capital structure, the amount of money in your corporation, is very, very small.

Mr. SIMON. \$50,000.

Mr. MANILOW. No; just a moment.

Mr. SIMON. Your capital structure is \$50,000 of common stock, \$600,000 of preferred stock, which you bought, and that is the only capital that any stockholder ever put in.

Mr. MANILOW. As capital for stock, that is right.

Mr. SIMON. You got over \$60 million worth of FHA commitments.

Mr. MANILOW. That is true, but what I was saying—

The CHAIRMAN. You borrowed a lot of money, but it was paid back?

Mr. MANILOW. That is right.

The CHAIRMAN. We are talking about capital investment.

Mr. MANILOW. I am trying only to say one thing. As individuals we borrowed that money.

The CHAIRMAN. It was paid back to you?

Mr. MANILOW. That is correct.

Mr. KENNEY. How successful has this been?

Mr. MANILOW. How successful has Park Forest been?

Mr. KENNEY. Yes.

Mr. MANILOW. There are presently more than 6,000 families residing in Park Forest.

Mr. SIMON. Mr. Manilow, could you have built Park Forest without FHA commitments?

Mr. MANILOW. I would have to say that a community like that could not have been built without insured mortgage facilities, such as was available during those days.

Mr. SIMON. You could not have got the FHA commitments without Ed Kelly and Clyde Powell signing the right papers?

Isn't that true?

Mr. MANILOW. Without processing them through their office.

Mr. SIMON. Certainly Kelly had to sign every commitment you got; didn't he?

Mr. MANILOW. Ultimately, as I understand it, as director he did have to, but it has to be, as you know, processed in the details which you are familiar with and I do not think we want to consume time doing that.

Mr. KENNEY. Do you have a large waiting list of tenants for your apartments?

Mr. MANILOW. We have had for years and do now have, as large a waiting list as we wish to create but it is unfair to create a waiting list beyond a given number of months. I think Mr. Simon is familiar, coming from Chicago, with Park Forest.

The CHAIRMAN. I do not think there is any question but what it is a nice project.

Mr. MANILOW. Thank you, Senator.

The CHAIRMAN. That is not the point.

Mr. MANILOW. I understand that, too.

The CHAIRMAN. Any other questions? If not, we thank you very, very much.

Mr. MANILOW. May I with your permission introduce these into the record?

The CHAIRMAN. Is it a statement?

Mr. MANILOW. Yes.

The CHAIRMAN. Without objection, your statement will be made a part of the record.

(The statement referred to follows:)

STATEMENT BY NATHAN MANILOW, PRESIDENT, AMERICAN COMMUNITY BUILDERS

Early in 1948, Edward F. Kelly, FHA director in Chicago, a person for whom I had the utmost regard, telephoned me to tell me that Clyde Powell, a personal friend of his, was in immediate need of a loan of \$7,500 to help solve a serious personal problem.

Kelly asked me if I would advance this money to Powell as a favor to him, Kelly. I agreed to help Powell by discounting a personal note of his at my bank, the Merchants National Bank in Chicago. I agreed to take the note for 90 days. Powell mailed me his note, dated March 10, 1948, for \$7,500 bearing interest at the rate of 4 percent.

I personally endorsed this note and discounted the same at my bank. The proceeds to the amount of \$7,500 were wired by the Merchants National Bank in Chicago to the credit of Powell at the Riggs National Bank in Washington, D. C. Bank records will verify these facts.

On June 10, 1948, Powell requested a 90-day extension. It was granted.

This extension was due on September 7, and when Powell did not pay on September 7, the bank charged my account on September 8 with the sum of \$7,575.

On September 9, 1948, I received a check from Powell for \$2,075 representing payment of \$2,000 against the principal plus interest. In addition, Powell sent me a new note for \$5,500 representing the unpaid balance and bearing interest at the rate of 4 percent. This was due December 8, 1948.

On December 2, 1948, I sent the note for \$5,500 to the late William Nelson, vice president of the Merchants National Bank, and requested him to collect payment. I would like to point out that I used the bank literally as a collection agency so that Powell could not feel that he owed me this money personally. This procedure is documented by correspondence with the bank.

The bank was unable to collect the \$5,500 balance and I requested that it return the note to me. It was my intent to personally collect the balance.

I was in Washington frequently during this period and each time made a point of dunning Powell for the money. As I recollect, I received \$5,500 in cash from Powell sometime during that year. As far as I was concerned the matter of the loan was closed upon my receiving this money.

I should say that I normally keep fairly large amounts of cash readily available. Consequently, it was not at all unusual for me not to deposit this money.

Now, there has been some question raised that this loan was made to influence Mr. Powell to approve and facilitate the increase of our FHA loan in the sum of \$590,000. I flatly deny this. In fact, it would have been impossible for Powell to exert such influence.

I would like to point out that when we applied for this increase through the Chicago FHA office it was sent to Washington marked "Approved." The facts are as follows: In the summer of 1949 when the nine 608 projects that were being built in the village of Park Forest were nearing completion, preliminary oral

conversations were held with the mortgage bankers and the local FHA office with a view to securing an adjustment in the commitments because of the increased costs incurred which were beyond the control of the sponsor. In a preliminary examination of the facts it was readily conceded that the eligible increase in cost was several times the maximum that would be permissible under the statutory limitation of \$1,800 per room, if it were applied. There never was any controversy about these facts. Incidentally, the Park Forest projects were not alone in this predicament.

I wrote a letter in some detail regarding this matter to Mr. Albert Cole following issuance of the final report of his agency a few weeks ago and I am offering this letter for the record.

At this time, Congress was considering amendments to the Housing Act. On October 6, 1949, the Senate passed Senate Joint Resolution 134. A few days later, the House of Representatives concurred in this action, thereby permitting projects in the predicament of Park Forest to secure relief under the law.

The files of the FHA will disclose that on November 10, 1949, the various Park Forest companies made application through their representative mortgagees for this relief. It was not until February 1, 1950—or about 3 months later—that the FHA approved these applications for increase in mortgage commitments.

This information should make very clear that the increase in mortgage was possible only following a congressional resolution amending the law. Mr. Powell was, of course, in no position to influence such congressional legislation.

Further, I would like to point out that unlike other cases which have been discussed before this committee, we did not receive any windfall. On the contrary, the sponsors of Park Forest, which today houses 25,000 people, put up several millions of dollars in cash over and above the loan, even after the increase. We are proud of the record of Park Forest and its service in helping to solve the housing problem. I am pleased for this opportunity to set the record straight.

The CHAIRMAN. Mr. Dexter, will you please be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF WARDWELL C. DEXTER, SILVER SPRING, MD.

Mr. DEXTER. I do.

The CHAIRMAN. Thank you, sir. Please be seated. Give the reporter your name and address, please.

Mr. DEXTER. Wardwell C. Dexter, 1401 Highland Drive.

Mr. SIMON. You are Wardwell C. Dexter?

Mr. DEXTER. That is right.

Mr. SIMON. W-a-r-d-w-e-l-l C. Dexter?

Mr. DEXTER. That is right.

Mr. SIMON. You live at 1401 Highland Drive, Silver Spring, Md.

Mr. DEXTER. That is right, sir.

Mr. SIMON. You now run a parking lot here in the District?

Mr. DEXTER. Yes, sir.

Mr. SIMON. What was your business in 1940 and 1941?

Mr. DEXTER. Bookmaker.

Mr. SIMON. A bookmaker?

Mr. DEXTER. Yes.

Mr. SIMON. Were you what is known as commissionman?

Mr. DEXTER. Partially.

Mr. SIMON. And did you work with "Blackjack" Keleher?

Mr. DEXTER. I worked with John Keleher.

Mr. SIMON. Excuse me. He is the same man whom the newspapers sometimes call "Blackjack" Keleher?

Mr. DEXTER. They do.

Mr. SIMON. During the time you were a bookmaker, did you know Clyde Powell?

Mr. DEXTER. Yes.

Mr. SIMON. What was your relationship with Clyde Powell?

Mr. DEXTER. Unfortunate.

Mr. SIMON. Unfortunate?

Mr. DEXTER. Yes.

Mr. SIMON. I didn't mean to inquire as to the outcome of it but you did have business dealings with him?

Mr. DEXTER. Yes, sir.

Mr. SIMON. You took bets from him?

Mr. DEXTER. That is right.

Mr. SIMON. Where did you go to take those bets?

Mr. DEXTER. Vermont Avenue—I took them over the phone.

Mr. SIMON. You took them over the phone?

Mr. DEXTER. That is right.

Mr. SIMON. Did you ever go to his office to either pay off or collect?

Mr. DEXTER. Yes, sir.

Mr. SIMON. What was your arrangement with Mr. Keleher as to the type of debt you would take and the type of debts he would take?

Mr. DEXTER. The arrangements were that I kept a certain amount and gave Jack the rest of it.

Mr. SIMON. What I had in mind, when they got to be over a certain amount.

Mr. DEXTER. That is right.

Mr. SIMON. You turned them over to him to handle them?

Mr. DEXTER. That is right.

Mr. SIMON. And you just took what the trade would call the smaller bets?

Mr. DEXTER. That is right.

The CHAIRMAN. What do you mean by small bets?

Mr. DEXTER. \$10, \$20.

The CHAIRMAN. What do you mean by large bets?

Mr. DEXTER. You can use your own judgment about that. It would all depend, Senator, on what the odds were on the particular horse.

Mr. SIMON. Who introduced you to Powell?

Mr. DEXTER. I believe if I remember right, and I am taking this from memory, Mr. Keleher told me to contact Powell; that he had met him at Fenner & Bean's office.

Mr. SIMON. Mr. Keleher told you that?

Mr. DEXTER. That is right.

The CHAIRMAN. Whose office?

Mr. DEXTER. The stockbroker, Fenner & Bean.

The CHAIRMAN. Fenner & Bean. I see.

Mr. SIMON. At that time Mr. Keleher turned Powell over to you because the bets were too small for Mr. Keleher to fool with?

Mr. DEXTER. I do not believe Mr. Keleher knew what the play would be.

Mr. SIMON. But you went to him?

Mr. DEXTER. That is right.

Mr. SIMON. Did you take a bet from him almost every day during 1940 and 1941?

Mr. DEXTER. For a period of approximately 9 months.

Mr. SIMON. For a period of about 9 months?

Mr. DEXTER. Approximately; yes.

Mr. SIMON. Is that the later half of 1940 and early half of 1941?

Mr. DEXTER. I am guessing at that period.

Mr. SIMON. It was about 9 months?

Mr. DEXTER. Roughly.

Mr. SIMON. You took a bet almost every day?

Mr. DEXTER. Yes.

Mr. SIMON. Do you recall what those bets would average a week?

Mr. DEXTER. I would say that they would run around \$100 or \$120 a day.

Mr. SIMON. \$100 to \$120 a day.

Mr. DEXTER. Yes.

Mr. SIMON. Is that right?

Mr. DEXTER. That is right, sir.

Mr. SIMON. Will you tell the committee in your own words this final experience you had with Mr. Powell?

Mr. DEXTER. I didn't hear the question, sir.

Mr. SIMON. Would you tell the committee in your own words this final experience that you had with Mr. Powell?

Mr. DEXTER. That particular day I am talking about Mr. Powell—

Mr. SIMON. That would be sometime in 1941?

Mr. DEXTER. Either 1940 or 1941. At any rate, he started betting, betting the kind of money I didn't want to handle because I was responsible for anything that I gave Mr. Keleher, and I told Jack at the time that—

Mr. SIMON. I am sorry, I didn't get you. How big a bet did he want to place?

Mr. DEXTER. If I remember right, and I am guessing at this also, because this is a long time ago, I think Mr. Powell went that day for around \$1,500.

Mr. SIMON. \$1,500?

Mr. DEXTER. Yes, sir.

Mr. SIMON. On one horse?

Mr. DEXTER. No.

Mr. SIMON. On several horses?

Mr. DEXTER. On a series of bets.

Mr. SIMON. A series of bets for 1 day's races?

Mr. DEXTER. That is right.

Mr. SIMON. Did you call Keleher?

Mr. DEXTER. I was in Keleher's office.

Mr. SIMON. You were in Keleher's office at the time?

Mr. DEXTER. That is right.

Mr. SIMON. What did you tell Keleher?

Mr. DEXTER. I told him I did not want to be responsible for it.

Mr. SIMON. What did he say?

Mr. DEXTER. He said go ahead and take it.

Mr. SIMON. Did you take it?

Mr. DEXTER. Yes, sir.

Mr. SIMON. Did Mr. Powell win or lose?

Mr. DEXTER. He lost.

Mr. SIMON. What happened when you went to collect?

Mr. DEXTER. Nothing.

Mr. SIMON. Will you tell us what happened when you went to his office?

Mr. DEXTER. He just didn't have it.

Mr. SIMON. Did you call Keleher?

Mr. DEXTER. That is right, sir.

Mr. SIMON. Were you in Mr. Powell's office when you called Keleher?

Mr. DEXTER. That is right.

Mr. SIMON. What did you say to Mr. Keleher?

Mr. DEXTER. I just told him that Mr. Powell did not have the money, he had better come up there.

Mr. SIMON. What did Mr. Keleher say?

Mr. DEXTER. He came up.

Mr. SIMON. What did you do?

Mr. DEXTER. I left.

Mr. SIMON. Did you leave before Mr. Keleher came?

Mr. DEXTER. I beg pardon?

Mr. SIMON. Did you leave before Mr. Keleher came?

Mr. DEXTER. No, sir.

Mr. SIMON. Were you there when he arrived?

Mr. DEXTER. Yes, sir.

Mr. SIMON. What was the conversation when Mr. Keleher came?

Mr. DEXTER. That is when I left.

Mr. SIMON. Did Mr. Keleher take over responsibility for \$1,500?

Mr. DEXTER. He did.

Mr. SIMON. You have never had any business dealings with Mr. Powell since?

Mr. DEXTER. No, sir.

Mr. SIMON. Thank you.

The CHAIRMAN. Thank you very much. We will excuse you, now. Our next witness will be Mr. John B. Keleher. Mr. Keleher, will you come forward please?

Will you please raise your right hand?

Will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF JOHN B. KELEHER, GOLDEN BEACH, FLA., ACCOMPANIED BY ALVIN L. NEWMYER, COUNSEL**

Mr. KELEHER. I do.

The CHAIRMAN. Please give your name and address for the record, please.

Mr. KELEHER. John B. Keleher.

The CHAIRMAN. Your address?

Mr. KELEHER. I now live in Florida, 215 Ocean Boulevard, Golden Beach, Fla.

The CHAIRMAN. You may proceed, Mr. Counsel.

The gentleman with you is your lawyer?

Mr. KELEHER. That is right.

The CHAIRMAN. His name is—Alvin L. Newmyer?

Mr. SIMON. You are John E. Keleher, K-e-l-e-h-e-r?

Mr. KELEHER. John B.

Mr. SIMON. John B.?

Mr. KELEHER. Yes, sir.

Mr. SIMON. You live at 215 Ocean Boulevard, Golden Beach, Fla.?

Mr. KELEHER. Golden Beach, Fla.; yes.

Mr. SIMON. Is that in Dade County, Fla.?

Mr. KELEHER. Yes, sir.

Mr. SIMON. You were formerly a resident of the District; were you, Mr. Keleher?

Mr. KELEHER. Yes, sir. I was born and raised here.

Mr. SIMON. Until when did you live here?

Mr. KELEHER. I have lived here all my life except this last 2½ years I lived in Florida.

Mr. SIMON. During a long period of time were you a personal friend of Clyde Powell's?

Mr. KELEHER. No, sir. I wouldn't say personal friend. I have known him for 12 to 15 years.

Mr. SIMON. You have known him 12 to 15 years?

Mr. KELEHER. Yes, sir.

Mr. SIMON. Was it personal enough so you would go to the races with him?

Mr. SIMON. Oh, yes. I have been to the races with him.

Mr. SIMON. And I take it you are retired now, are you?

Mr. KELEHER. I am retired; yes.

Mr. SIMON. A couple of months ago you and your wife came up here for a visit?

Mr. KELEHER. Yes, sir.

Mr. SIMON. Didn't you and your wife have Mr. and Mrs. Powell out to the Kenwood Country Club for a social evening?

Mr. KELEHER. Yes, sir.

Mr. SIMON. So you are reasonably good friends?

Mr. KELEHER. Only in the last 3 or 4 years. I would say since Mr. Powell got married. He married a friend of my wife's, and that brought us closer together.

Mr. SIMON. I see.

Now, did you bank at the K Street branch of the Securities Savings & Commercial Bank, in the period of 1942 to 1946?

Mr. KELEHER. I banked there for 30 years or more; yes, sir.

Mr. SIMON. At the K Street branch of the Security Savings & Commercial Bank?

Mr. KELEHER. Yes, sir.

Mr. SIMON. On May 27, 1942, did you deposit in that bank for collection a note in the amount of \$1,600 of Clyde L. Powell?

Mr. KELEHER. I have no memory of it; no, sir.

Mr. SIMON. I have here, Mr. Keleher, a photostat copy of the collection register of that bank, which shows the deposits of these notes, and I believe in an executive session of this committee you have been shown these photostat copies of the bank's records?

Mr. KELEHER. Yes, sir.

Mr. SIMON. I assume you do not have an independent recollection of May 27, 1942?

Mr. KELEHER. No, sir.

Mr. SIMON. But is there any doubt in your mind but what on that day or about that time you did deposit a note of Clyde Powell for collection?

Mr. KELEHER. Well, sir, all I can say is the notes speak for themselves, and the banks make no mistakes.

Mr. SIMON. There is no doubt in your mind?

Mr. KELEHER. There is no doubt, the notes are there; yes, sir.

Mr. SIMON. And there are a total of 4 notes, aren't there, 1 on May 27, 1942, for \$1,600; another one, June 24, 1942, for \$1,600; a third one, March 3, 1943, for \$2,100; and a fourth one on August 13, 1946, for \$3,600, totaling \$8,900?

Mr. KELEHER. I have been told that; yes, sir.

Mr. SIMON. There is no doubt in your mind but what that is true?

Mr. KELEHER. The notes speak for themselves; yes, sir.

Mr. SIMON. And you are not in a position to say that that is wrong and to deny it?

Mr. KELEHER. No, sir. I wouldn't deny it.

The notes speak for that.

Mr. SIMON. You just do not have an independent recollection?

Mr. KELEHER. That is right.

Mr. SIMON. You do not mean to convey the impression you are saying these notes were not deposited?

Mr. KELEHER. No, sir. The bank has the notes and that is right.

Mr. SIMON. You know the bank had the notes?

Mr. KELEHER. Yes, sir.

Mr. SIMON. Now were those notes collected by the bank and the proceeds deposited to your account?

Mr. KELEHER. I have no recollection of the notes connected with Mr. Powell in any way, shape, or form.

Mr. SIMON. What were those notes for, Mr. Keleher?

Mr. KELEHER. What were they for?

Mr. SIMON. Yes.

Mr. KELEHER. I couldn't tell you. I have no recollection of the notes, and I did not have until two Department of Justice men visited me in Florida, and they told me that they had information that a man that worked for me on commission——

Mr. SIMON. Dexter?

Mr. KELEHER. Had turned these notes. They didn't—I think they did mention, I am not sure, that they had turned these notes over to me and I told them at the time that I had no recollection of the notes.

Mr. SIMON. Is it a fair statement to say that Clyde Powell would not be giving you notes as a gift?

Mr. KELEHER. He never gave me any notes; no, sir.

Mr. SIMON. He never gave you notes as a gift?

Mr. KELEHER. He never gave me no notes at any time; not to me.

Mr. SIMON. He gave them to one of your employees?

Mr. KELEHER. I would say that they would come through other sources. To say what type or where they come from, outside of commission men, I have no idea.

Mr. SIMON. Is what you are saying that this note or these notes were probably given to such commission men and deposited to you for collection?

Mr. KELEHER. I would say so.

Mr. SIMON. They were not given to you as a gift, were they?

Mr. KELEHER. No.

Mr. SIMON. Mr. Powell was not in the habit of giving notes out for gifts?

Mr. KELEHER. No, sir.

Mr. SIMON. Therefore, they must have been some kind of business transaction?

Mr. KELEHER. I would think so.

Mr. SIMON. What was the business transaction?

Mr. KELEHER. That I couldn't say.

Mr. SIMON. What was your business in August of 1946?

Mr. KELEHER. That, of course, I refuse to answer on the ground it might incriminate me.

Mr. SIMON. What was your business in March 1943?

Mr. KELEHER. 1943—

Mr. SIMON. March 1943, what was your business?

Mr. KELEHER. I have been retired for 5 years.

Mr. SIMON. March 1943?

Mr. KELEHER. I am sorry. I decline to answer that, sir, on the grounds it might incriminate me.

Mr. SIMON. What was your business in June 1942?

Mr. KELEHER. I would say the same answer, sir.

Mr. SIMON. And your business in May 1942?

Mr. KELEHER. I would say the same thing.

Mr. SIMON. Now, Mr. Keleher—

The CHAIRMAN. I would like to ask a question, please. Have you seen this record of the Security Bank?

Mr. KELEHER. Yes, sir; the last committee showed me that.

The CHAIRMAN. We showed it to you in executive session?

Mr. KELEHER. Yes, sir.

The CHAIRMAN. There is no question the notes are there?

Mr. KELEHER. No, sir; there is no question about the notes.

The CHAIRMAN. No question but what the notes were deposited to your account?

Mr. KELEHER. They will speak for themselves. I have no recollection at any time of ever receiving a note off of Mr. Powell direct.

The CHAIRMAN. But you have seen this record of the Securities Bank?

Mr. KELEHER. Yes, sir.

The CHAIRMAN. There is no question in your mind but what Clyde Powell's notes, four notes, were there?

Mr. KELEHER. That is right. The bank speaks for that, sir.

Mr. SIMON. Mr. Keleher, without asking you what the business relationship was, and I expressly don't mean to infer what it was, were your business relations with Mr. Powell after 1946 on a strictly cash basis?

Mr. KELEHER. I have never had any business in the real-estate line at any time.

Mr. SIMON. What I was trying to get at, in the war years, 1942-46, Mr. Powell apparently had to issue some notes for whatever business dealings he might have had with you or your associates, and we have learned a little earlier here that during the period up to 1948 he had to borrow money from the Riggs Bank but after 1948 did not have to borrow any more money from the Riggs Bank and we do not find any more of his notes in your bank account. I am wondering whether

that is because after that period of time he was able to pay cash for all of his transactions with you or your associates?

Mr. KELEHER. I am sorry. That I wouldn't be able to answer. I wouldn't know.

Mr. SIMON. Now a couple of years ago, you were involved in some divorce litigation here in the District?

Mr. KELEHER. Indeed I was; yes, sir.

Mr. SIMON. And were you present in court when Mr. Powell testified?

Mr. KELEHER. Yes, sir; I was present.

Mr. SIMON. Did you hear him ask this question:

Question. Mr. Powell, did you have any transactions of any kind with Mr. Keleher in the years 1947, 1948, or 1949?

and this answer:

Answer. My acquaintance with Mr. Keleher has been strictly a personal one. I have no business transactions of any kind with Mr. Keleher.

Did you hear him make that answer?

Mr. KELEHER. I was there, naturally, when he testified, but I do not remember exactly what he said.

Mr. SIMON. If the transcript of the hearings so shows, that would be an inaccurate statement, wouldn't it?

Mr. KELEHER. As I said before, I was there, but I do not remember what he said.

Mr. SIMON. It is inaccurate, however, is it not, for him to say, "I have no business transactions of any kind with Mr. Keleher"?

Mr. KELEHER. I would not know that, sir.

I know that I have never taken any notes from Mr. Powell, to the best of my recollection, at any time.

Mr. SIMON. But in some manner you acquired notes that he made and you collected them; isn't that right?

Mr. KELEHER. Well, I think the bank shows what was paid on it.

The CHAIRMAN. The bank shows that they were collected and deposited to your account.

Mr. KELEHER. Well, the way I noticed them I do not think they were paid. I do not know but what I noticed of what they showed me I don't think they were paid.

Mr. SIMON. Weren't some payments made on them?

Mr. KELEHER. I noticed what they showed me. I noticed there had been some payments.

Mr. SIMON. There had been some payments but they weren't fully paid?

Mr. KELEHER. I have no recollection of the notes, connected with Mr. Powell, I would like to say this, could I?

The CHAIRMAN. Yes; you may say anything you care to.

Mr. KELEHER. Back 8 or 10 years ago, I knew Mr. Powell only by a nodding acquaintance. I doubt very much if I would have known his name after speaking to him, and my only recollection, was my attention was called to these notes when the Department of Justice spoke to me back 2 months ago in Florida, but I have no recollection whatsoever of ever having any notes personally from Mr. Powell.

The CHAIRMAN. Do you know Mr. Wardwell Dexter?

Mr. KELEHER. Yes, sir.

The CHAIRMAN. Did he work for you?

Mr. KELEHER. No, sir. He didn't work for me. He was a commission man.

The CHAIRMAN. For you?

Mr. KELEHER. Yes, he was for me, but he could have been——

The CHAIRMAN. He testified that you went to Mr. Powell's office to collect a \$1,500 bet. Is that true?

Mr. KELEHER. I don't remember of any such occasion as that.

Mr. SIMON. You wouldn't deny it, though, would you, Mr. Keleher?

Mr. KELEHER. Of course, if I don't remember I couldn't deny it, no, sir, but I have no recollection of ever going to Mr. Powell's office and collecting anything from him.

Mr. SIMON. But you are not in position to say you have never been to his office on business, have you?

Mr. KELEHER. On business?

Mr. SIMON. Yes.

Mr. KELEHER. I have never had any business with Mr. Powell in the way of real estate or anything of that kind.

The CHAIRMAN. Even with notes?

Mr. KELEHER. I have never had any business with him, no, sir.

The CHAIRMAN. These notes then just happened to drop out of heaven into your account?

Mr. KELEHER. No——

Mr. SIMON. He very carefully adds, when he says he has had no business, he adds in connection with real estate.

Mr. KELEHER. That is right, sir.

The CHAIRMAN. What business connections have you had, then?

Mr. KELEHER. Well, I decline to answer that, on the grounds it might incriminate me. My attention first was called to it through the Department of Justice, that the notes had been turned over to me, but I have no recollection. After all it has been 8 or 10 years ago, and we had a hundred or two hundred accounts turned over to us, with a lot of predated checks.

The CHAIRMAN. What business was that?

Mr. KELEHER. I decline to answer that, Mr. Chairman.

Mr. SIMON. Mr. Keleher, as early as 5 years ago, didn't you and your present wife and Mr. Powell and another lady go to the races in Atlantic City together?

Mr. KELEHER. I have been to the races lots of times with Mr. Powell; yes, sir.

Mr. SIMON. That goes back over many years?

Mr. KELEHER. Well, I wouldn't say over many years. As I told you before, I have seen Mr. Powell to nod to him, but I don't really believe I could have told you his name. He was just one of thousands with me.

The CHAIRMAN. He is the only one that was head of the Rental Division of FHA.

Mr. KELEHER. That I wouldn't know, sir. I never was in that line of business.

The CHAIRMAN. Thank you very much.

Our next witness will be Mr. William Taylor Johnson. Mr. Johnson, will you be sworn, please? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. JOHNSON. I do.

**TESTIMONY OF WILLIAM T. JOHNSON, SOUTH HAMPTON APARTMENTS, HAMPTON, VA., ACCOMPANIED BY P. A. AGELESTO, JR., COUNSEL**

The CHAIRMAN. Thank you, sir. Please be seated and give your name and address to the reporter for the record, please.

Mr. JOHNSON. W. Taylor Johnson, Virginia Beach, Va.

The CHAIRMAN. The gentleman with you is your attorney?

Mr. JOHNSON. Mr. Agelesto, Norfolk.

Mr. SIMON. Mr. Johnson, how many buildings have you been interested in that were built under section 608 of the Housing Act?

Mr. JOHNSON. You mean projects?

Mr. SIMON. Projects, yes.

Mr. JOHNSON. Five.

Mr. SIMON. Will you name them for us, please?

Mr. JOHNSON. South Hampton Apartments, in Hampton, Va., Bolling Square, in Norfolk, Ocean Air Apartments, Norfolk, Riverside Terrace Apartments, in Norfolk, and the Mayflower Apartments, Virginia Beach.

Mr. SIMON. What was the amount of the mortgage in South Hampton?

Mr. JOHNSON. I couldn't tell you that, sir.

Mr. SIMON. Do you have records there?

Mr. JOHNSON. No. I mailed you all the records you asked for on July 29. You didn't ask for it. I had a very minor interest in the South Hampton Apartments, however.

Mr. SIMON. You don't remember what the amount of the mortgage was?

Mr. JOHNSON. I don't remember. It was the first project I had anything to do with. That was back in probably 1942.

Mr. SIMON. Do you remember the mortgage was in Bolling Square? That was prior to 1946, too?

Mr. JOHNSON. It was all back in 1942 and 1943. Those two were.

Mr. SIMON. What about Ocean Air?

Mr. JOHNSON. You have that.

Mr. SIMON. You have a copy, don't you? What was the amount of the mortgage in Ocean Air?

Mr. JOHNSON. There are four corporations in there, Mr. Simon.

Mr. SIMON. What was the total amount?

Mr. JOHNSON. I will have to figure them up. They are all listed separately.

Mr. SIMON. If you will give them to me I will add them.

Mr. JOHNSON. \$1,019,600; \$936,000; \$835,200; and \$676,800.

Mr. SIMON. What were the costs?

Mr. JOHNSON. That has to be added also. What was that total?

Mr. SIMON. \$3,465,000 I have. All I am really interested in is were the costs less or more than the mortgage?

Mr. JOHNSON. Three million what?

Mr. SIMON. \$3,465,000.

Mr. JOHNSON. There are three items involved in this so if you want to add these up I will be glad to call them out.

Mr. SIMON. I will be glad to add them.

Mr. JOHNSON. On the item of \$791—that is the first one, I guess. The CHAIRMAN. Don't you remember whether the amount of the mortgage was greater than all the costs?

Mr. JOHNSON. It was greater in this particular instance.

Mr. SIMON. The mortgage exceeded the costs?

Mr. JOHNSON. That is right.

Mr. SIMON. Isn't it also true if you take Ocean Air and Riverside together the mortgages exceeded the cost?

Mr. JOHNSON. Riverside had nothing to do with it. The only owners in Riverside are my wife and myself and there are five owners in Ocean Air.

Mr. SIMON. What was the amount the mortgage exceeded the cost in Ocean Air?

Mr. JOHNSON. That is what I started to do. I have to add them all up.

The CHAIRMAN. You may take your time.

Mr. JOHNSON. Do you want me to approximate it?

Mr. SIMON. Yes.

Mr. JOHNSON. I am told the figure is about \$240,000.

Mr. SIMON. Does that include the premium on the mortgage?

Mr. JOHNSON. There was no premium on the mortgage. As a matter of fact we paid for it.

Mr. SIMON. What about Riverside?

Mr. JOHNSON. Riverside was built at a cost to me of \$156,000.

Mr. SIMON. Over the mortgage?

Mr. JOHNSON. Yes, sir.

Mr. SIMON. Mayflower, the cost was between four and five thousand dollars over the mortgage, is that right?

Mr. JOHNSON. That is right, sir.

Mr. SIMON. Does that amount of roughly \$4,000 over the mortgage include a \$3,000 finance fee paid to Clyde Powell?

Mr. JOHNSON. Mr. Simon, we went into that at some length in the July 29 hearing.

Mr. SIMON. My question is whether the costs which you have testified are about \$4,000 more than the mortgage, includes \$3,000 as a finance charge that was paid to Clyde Powell?

Mr. JOHNSON. It wasn't paid to Mr. Powell. It was a loan to Mr. Powell. Let's get the record straight, please, sir.

Mr. SIMON. Was it included in your books as a finance charge?

Mr. JOHNSON. It definitely was later on. However, at that time, let me get the record—

Mr. SIMON. We will get the whole story.

Mr. JOHNSON. You had the whole story once. I don't know why you want me again. I will give it to you.

Mr. SIMON. The \$3,000 was included in the cost of construction as a finance charge?

Mr. JOHNSON. That was testified to 2 months ago, sir.

Mr. SIMON. It is true, isn't it?

Mr. JOHNSON. It is true, sir, but this part you won't let me say.

Mr. SIMON. I will give you a chance. It was paid in cash to Clyde Powell, wasn't it?

Mr. JOHNSON. No. The \$3,000 was paid in cash to Mr. Powell. It was my personal check.

Mr. SIMON. And then the corporation reimbursed you?

Mr. JOHNSON. That is correct.

Mr. SIMON. Will you tell us the circumstances when you paid the \$3,000 to Clyde Powell? I will let you tell it in your own way.

Mr. JOHNSON. You mean I have to go over the whole thing again?

Mr. SIMON. Yes.

Mr. JOHNSON. You have the testimony, Senator Capehart.

The CHAIRMAN. We have everybody in executive session before we have them in public session.

Mr. JOHNSON. May I make this one statement?

The CHAIRMAN. Did you pay Powell \$3,000?

Mr. JOHNSON. Yes, sir. I will come to that, if you will let me make one statement that Mr. Simon doesn't want me to make apparently.

The CHAIRMAN. You proceed to make any statement you want in connection with giving Mr. Powell \$3,000.

Mr. JOHNSON. This has a very definite bearing on it. Mr. Simon asked me the question, Did the \$3,000 come out of the mortgage money. Isn't that what you asked?

Mr. SIMON. No. I asked you if you didn't charge it on your books as a finance charge.

Mr. JOHNSON. We definitely did.

Mr. SIMON. You did.

Mr. JOHNSON. We definitely did, but the \$3,000 at that time, that that loan was made, the Mayflower Apartment Corp. owed me \$155,000, which I had advanced to the Mayflower builders. That is where the check came from.

Mr. SIMON. No quarrel about that at all. You told us you gave him the money on a Saturday morning in cash, and the following week the corporation reimbursed you; is that right?

Mr. JOHNSON. That is correct.

The CHAIRMAN. Why did you give Mr. Powell \$3,000?

Mr. JOHNSON. Senator Capehart, may I read the statement that is the testimony that was taken on July 29?

The CHAIRMAN. Just tell us the circumstances.

Mr. JOHNSON. He wants me to tell it in my own way?

Mr. SIMON. First give us the date.

Mr. JOHNSON. I will give you the whole thing.

Mr. SIMON. Just tell us the date first.

Mr. JOHNSON. The date was August 19.

Mr. SIMON. August 19, what year?

Mr. JOHNSON. 1950.

Mr. SIMON. And was the occasion of Mr. Powell's coming to—is it Norfolk or Newport News?

Mr. JOHNSON. Virginia Beach.

Mr. SIMON. Virginia Beach; that is just outside Norfolk?

Mr. JOHNSON. That is right.

Mr. SIMON. Was the occasion for his coming down there the dedication of the Mayflower Apartments?

Mr. JOHNSON. That is right, sir.

Mr. SIMON. And you and Mr. Van Patten were the owners of Mayflower Apartments?

Mr. JOHNSON. That is correct.

Mr. SIMON. Mr. Van Patten was the former FHA zone commissioner for this district?

Mr. JOHNSON. I don't know what district he was in, but he was zone commissioner.

Mr. SIMON. For FHA, and he left FHA to go to work for you?

Mr. JOHNSON. Do you know what day of the week August 19 was on?

Mr. JOHNSON. No; I can't recall.

Mr. SIMON. You gave a luncheon party to celebrate the opening?

Mr. JOHNSON. I did.

Mr. SIMON. Where was the luncheon party?

Mr. JOHNSON. Cavalier Beach Club.

Mr. SIMON. Was there drinking at the luncheon party?

Mr. JOHNSON. Yes.

Mr. SIMON. To what extent?

Mr. JOHNSON. To whom are you referring to what extent?

Mr. SIMON. How long did the——

Mr. JOHNSON. There were 125 people there.

Mr. SIMON. One hundred and twenty-five people there and how long did it last?

Mr. JOHNSON. Probably 4 hours; from about half past 1 to 4 or 4:30 p. m.

Mr. SIMON. After the luncheon party was there a dinner party at your house?

Mr. JOHNSON. That is correct.

Mr. SIMON. Was Mr. Powell invited to that party?

Mr. JOHNSON. Yes.

Mr. SIMON. Did he attend?

Mr. JOHNSON. No. He and Mr. Van Patten I think went to the Cavalier Hotel.

Mr. SIMON. Mr. Van Patten testified that both he and Mr. Powell attended; is that wrong?

Mr. JOHNSON. I am sure it was.

Mr. SIMON. Did Mr. Van Patten get in touch with you about midnight?

Mr. JOHNSON. Yes.

Mr. SIMON. How did he get in touch with you?

Mr. JOHNSON. Telephone.

Mr. SIMON. What did he tell you?

Mr. JOHNSON. He said he would like for me to accompany him and Mr. Powell to the Dunes Club.

Mr. SIMON. Where was that?

Mr. JOHNSON. Approximately one block from my house. It was a gambling house.

The CHAIRMAN. A gambling club in Virginia?

Mr. JOHNSON. Yes.

Mr. SIMON. Who were the owners of the Dunes Club?

Mr. JOHNSON. I don't know who the owners were. Mr. Andrews was in there.

Mr. SIMON. Was there a Mr. Ferguson there?

Mr. JOHNSON. Not that night.

Mr. SIMON. He was one of the people who managed it?

Mr. JOHNSON. Yes; he and Mr. Andrews.

Mr. SIMON. He and Mr. Andrews were the managers of the place?

Mr. JOHNSON. They may own it. I don't know.

Mr. SIMON. What time did you get to the Dunes Club?

Mr. JOHNSON. I would say around 1:30 in the morning.

Mr. SIMON. Accompanied by Mr. Powell and Mr. Van Patten?

Mr. JOHNSON. Yes. They picked me up in the car.

Mr. SIMON. How long did you remain there?

Mr. JOHNSON. Until 6:30 in the morning.

Mr. SIMON. Five hours?

Mr. JOHNSON. That is right.

Mr. SIMON. What did Mr. Powell do during those 5 hours?

Mr. JOHNSON. Playing craps.

The CHAIRMAN. Shooting craps?

Mr. JOHNSON. Yes.

Mr. SIMON. During the entire 5-hour period?

Mr. JOHNSON. Exactly.

Mr. SIMON. Do you know whether he won or lost?

Mr. JOHNSON. I do not know, sir.

Mr. SIMON. Do you know whether in the middle of the session the proprietors came over or the managers came over and asked you if it was all right to extend credit to him?

Mr. JOHNSON. He did, accompanied by Mr. Van Patten.

The CHAIRMAN. They did ask you if it was all right to extend credit to Mr. Powell?

Mr. JOHNSON. He brought over Mr. Powell and I told him he was perfectly reliable to my opinion.

Mr. SIMON. Was there drinking going on at the Dunes Club?

Mr. JOHNSON. There was some.

Mr. SIMON. What time did you leave the Dunes Club?

Mr. JOHNSON. 6:30.

Mr. SIMON. Where did you go?

Mr. JOHNSON. To my home.

Mr. SIMON. Did you walk home?

Mr. JOHNSON. Yes.

Mr. SIMON. What was the state of Mr. Powell's condition at that time?

Mr. JOHNSON. He had had quite a few drinks.

Mr. SIMON. He had had quite a few drinks?

Mr. JOHNSON. Yes.

Mr. SIMON. When you got home where did you go?

Mr. JOHNSON. To the recreation room.

Mr. SIMON. Is the reason you went to the recreation room because you thought you had both been drinking so much you didn't want to go upstairs?

Mr. JOHNSON. It could have been. I had guests in the house upstairs.

Mr. SIMON. Didn't you tell us in executive session that the quantity of drinking—

Mr. JOHNSON. I said it could have been, Mr. Simon.

Mr. SIMON. You went down to your recreation room in the basement?

Mr. JOHNSON. That is correct, sir.

Mr. SIMON. Did you finally eat breakfast down there?

Mr. JOHNSON. Yes.

Mr. SIMON. At what time was that?

Mr. JOHNSON. About 8:30.

The CHAIRMAN. You hadn't had any sleep yet?

Mr. JOHNSON. Not yet. Not that night.

Mr. SIMON. Did anybody come to see you when you were in the basement?

Mr. JOHNSON. Mr. Van Patten came in and told me that Mr. Andrews, and I think he said Mr. Ferguson, were on the outside of my home, and they wanted to compromise a gambling loss of Mr. Powell's.

Mr. SIMON. Was Mr. Powell there at the time?

Mr. JOHNSON. Mr. Powell was there. Mr. Powell denied he owed them any money.

Mr. SIMON. Tell us the rest of the conversation.

Mr. JOHNSON. Mr. Van Patten said he was afraid Mr. Powell might get into some difficulty in Washington, these people might make some trouble for him and he could compromise the loss for \$3,000. I said how much money did Mr. Powell lose. He said he didn't know.

Mr. SIMON. Who said he didn't know?

Mr. JOHNSON. Mr. Van Patten. He thought it might be 5 or 8 thousand dollars, but he didn't know. It could be compromised. He thought it was a very smart thing for Mr. Powell to do. I discussed it with Mr. Powell and he still contended he did not owe the money. However he finally consented to pay them the \$3,000 and said he didn't have a check or cash on him. I discussed the matter with Mr. Van Patten who was a partner of mine at that time, and he and I both agreed that inasmuch as we had told the management of the Dunes Club that Mr. Powell's credit was O. K., that even though it was not a legal obligation, it was definitely a moral obligation for us to see that the moneys that had been advanced to him, and that they claimed he owed them was paid. I gave Mr. Powell a check which he refused to take and said he would rather pay them in the cash and have nothing to do with it.

Mr. SIMON. You gave him a check. Did you make the check out?

Mr. JOHNSON. I made the check out to him. That was destroyed. I later made another check.

Mr. SIMON. Who was the first check made out to?

Mr. JOHNSON. Currency.

Mr. SIMON. The first check was made out to currency.

Mr. JOHNSON. I don't think the first check, Mr. Simon, has any bearing on it at all. He simply said he would rather have the cash.

The CHAIRMAN. Mr. Powell said that?

Mr. JOHNSON. Yes. I drew a check for \$3,000.

Mr. SIMON. Who was the second check payable to?

Mr. JOHNSON. Currency.

Mr. SIMON. What was the difference between the two checks?

Mr. JOHNSON. He didn't want to take the check. He asked me to get it cashed. I tore it up then. I thought he wanted me to pay the Dunes Club, so I drew a second check for \$3,000.

Mr. SIMON. You sent one of your household servants to the bank to cash it?

Mr. JOHNSON. Yes; and gave it to Mr. Powell.

Mr. SIMON. You handed it to Mr. Powell?

Mr. JOHNSON. I did.

Mr. SIMON. What did he do with it?

Mr. JOHNSON. I couldn't answer that question, Mr. Simon.

Mr. SIMON. You don't know?

Mr. JOHNSON. I definitely don't know from that time on. I didn't get the \$3,000 back. Mr. Powell did not at any time ask me to make him the loan or give him the money.

Mr. SIMON. All you know is you handed Clyde Powell \$3,000 in currency. you never saw the \$3,000 again?

Mr. JOHNSON. That is right.

Mr. SIMON. The corporation reimbursed you for the \$3,000?

Mr. JOHNSON. No. The corporation didn't. The Mayflower Builders did. It is two separate, distinct organizations.

Mr. SIMON. Wasn't Mayflower Builders a corporation?

Mr. JOHNSON. No; a partnership.

Mr. SIMON. The partnership reimbursed you for \$3,000 and it was put on the books as a finance charge?

Mr. JOHNSON. That is right.

Mr. SIMON. It was never paid back?

Mr. JOHNSON. No.

The CHAIRMAN. Mr. Powell never paid you back the \$3,000?

Mr. JOHNSON. No, sir.

The CHAIRMAN. Any questions? Thank you, sir.

Mrs. DeGrazia, please. Will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF MRS. ROCCO DeGRAZIA, MELROSE PARK, ILL.,  
ACCOMPANIED BY CHARLES E. FORD, COUNSEL**

Mrs. DeGRAZIA. I do.

The CHAIRMAN. This gentleman is your attorney?

Mr. FORD. My name is Charles E. Ford.

The CHAIRMAN. Will you please give your name and address to the reporter, please?

Mrs. DeGRAZIA. Mrs. Rocco DeGrazia, 171 North 25th Avenue, Melrose Park, Ill.

The CHAIRMAN. We have about two questions.

Mr. SIMON. Mrs. DeGrazia, I show you a photostat copy of a cashier's check, or draft, issued by the Riggs National Bank on June 2, 1948, payable to the order of Rocco DeGrazia, and having a signature of that name on the back, and I ask you if that is your husband's signature?

(Conference between Mrs. DeGrazia and counsel.)

Mrs. DeGRAZIA. I am going to decline to answer that.

Mr. SIMON. On what grounds?

Mrs. DeGRAZIA. On the grounds of the fifth amendment of the Constitution of the United States and my rights as a wife.

Mr. SIMON. Can you tell us what business your husband is in?

Mrs. DeGRAZIA. I decline to answer, sir.

The CHAIRMAN. Could you help us to tell us where your husband is located?

Mrs. DeGRAZIA. I decline to answer.

The CHAIRMAN. All we want to know is whether or not that is his signature on the back of that \$8,650 check.

Mrs. DeGRAZIA. I decline to answer on the same reason.

Mr. SIMON. Where did you say you lived, Mrs. DeGrazia?

Mrs. DEGRAZIA. 171 North 25th Avenue, Melrose Park, Ill.

Mr. SIMON. Is that the building in which the Casa Madrid is located?

Mrs. DEGRAZIA. Yes, sir.

Mr. SIMON. Is Casa Madrid a nightclub and gambling house?

Mrs. DEGRAZIA. I decline to answer that, sir.

Mr. SIMON. Is your husband the owner of the Casa Madrid?

Mrs. DEGRAZIA. I decline to answer that on the same ground.

Mr. SIMON. I take it your prior refusal was also on the same grounds?

Mrs. DEGRAZIA. Yes, sir.

Mr. SIMON. Do you know whose telephone number is Melrose Park, Ill., 690?

Mrs. DEGRAZIA. I decline to answer.

Mr. SIMON. I hold in my hand 10 long-distance telephone call slips made in 1948 and 1949 from the apartment of Clyde L. Powell at the Wardman Park Hotel, to a Mr. DeGrazia, at Melrose Park 690.

Can you tell us who those calls were to?

Mrs. DEGRAZIA. I decline to answer, sir.

The CHAIRMAN. Thank you very much.

Mr. FORD. Are we finally excused, sir?

The CHAIRMAN. You are excused.

I am now going to place in the record a lot of papers handed me here which seem to have been distributed by Ella G. Roller Associates, 1028 Connecticut Avenue NW., in behalf of Mr. Manilow and the president of the American Community Builders.

We will place all this in the record. Before I do so, I just want to say that I glanced through it and find that it is a pattern that has generally been followed by witnesses and by associations in respect to this hearing, to try to divert attention from the main issue.

The main issue with Mr. Manilow was that he loaned Mr. Powell \$7,500 and that he paid back \$2,000, and this gentleman, Mr. Manilow, took the \$5,500 as a bad account on his income tax. He took a deduction for it in 1950, in his return of 1949. Three or four years later, he gets caught by the Internal Revenue Service and they reverse it. He maintains that the money was paid to him, and paid in cash, and yet he was so absent-minded that he forgot that it had been paid to him and permitted his income-tax return to show it had never been paid and deducted as a bad account. He carried the money around in his pocket. That is all the testimony we had from Mr. Manilow. That is all the testimony we were interested in.

This business that I hold in my hand is purely a hundred percent smokescreen. As far as I know it is true. At no time did we question the projects that these gentlemen, Mr. Klutznick and Mr. Manilow, built.

I made the statement a moment ago they were very fine projects. There is no question about it. That isn't the issue. It says here:

"It was impossible for Clyde L. Powell, Chief of the Rental Housing Division of FHA, to determine or influence the size of a housing loan," Nathan Manilow, president of American Community Builders of Park Forest project, Illinois, today testified before the United States Senate Banking and Currency Committee.

That is just a lie. He did not testify to that today. You gentlemen were all here. We didn't ask him any such questions and he didn't testify to it. I am simply bringing this up and putting it into the

record to show how from time to time a pattern, too often, if you please, that a builders association and witnesses and others before this committee have tried to hide behind smokescreens and have tried to pull all sorts of stunts, such as this one. I think it is reprehensible. I want the world to know it. I am going to make it a part of the record, that it may be published and printed and become a permanent part of the record.

I just want to say this to you, Mr. Manilow, if you are still here, that you have weakened yourself and weakened your whole case by issuing such a statement. Now that you have seen fit to issue this statement, as you have here, which is a direct criticism of this committee and indirect criticism of this committee, I just want to say you asked for a personal conference with me yesterday. You wanted nobody present but myself and I saw you. In that conference you tried to persuade me to call you as a public witness here today. I just want you to know we have been working our heart out on this matter trying to get the facts. No committee has ever been more fair and more honest with witnesses than we have. We have repeatedly stated and we state today that if any man ever feels he has been hurt as a result of any testimony, that we want him to feel free to come and give us the information. We have worked hard on this matter. We have tried to be fair and tried to be honest and I just want the record to show it.

We will put this in the record now that everybody may read a perfect example of a smokescreen, where a man and his companies are trying to cover up the main issue. The issue was a \$7,500 loan. He claimed it was later repaid. He saw fit, however, to deduct it as a bad debt from his income tax. I don't think a man as successful as Mr. Manilow has been can have such a poor memory as that, and forget a \$5,500 item. Maybe so. He hasn't impressed me. I want the record to show that I have not been impressed and I am not impressed by this.

(The information referred to follows:)

ELLA G. ROLLER ASSOCIATES,  
October 5, 1954.

FOR IMMEDIATE RELEASE

"It was impossible for Clyde L. Powell, Chief of the Rental Housing Division of the FHA to determine or influence the size of a housing loan," Nathan Manilow, president of the American Community Builders, builders of the Park Forest, Ill., project testified today before the United States Senate Banking and Currency Committee.

Manilow was questioned regarding a personal loan made by him to Powell at the request of E. F. Kelley, Chicago FHA chief. He stated that the loan for \$7,500 was repaid to him in two parts during 1948 and 1949.

He said that the increase of \$590,500 in the FHA commitment for the Park Forest project was made only after a bill, Senate Joint Resolution 134, was passed by Congress in 1949. "Mr. Powell was in no position to influence this congressional legislation," he stated.

"No single housing official has the power of influence to determine the size of a housing loan," he added.

Examination of the procedures followed by the Park Forest housing project and all others requesting loans shows that seven technical officials of the local FHA office (Chicago) are required to review and determine the size of each loan. They include the chief valuator, the architect, the cost estimator, the head of the mortgage risk department, the chief underwriter, and the director of the local office. In addition, six Washington FHA units had to approve this.

particular loan request. Manilow pointed out that the sponsors of Park Forest put up several millions of dollars in cash to construct the project.

Park Forest is a village southwest of Chicago, Ill. Today it houses 25,000 people with schools, churches, and a complete shopping center. The rentals for the project are far below established FHA limits.

#### FACTS ABOUT POWELL'S POWER

It is a fact that neither Clyde Powell nor any other single housing official has the power or influence to determine the size of a housing loan. Examination of the procedures followed by the Park Forest housing project and all others requesting loans shows why:

To obtain an insured loan in the Chicago area, for example, a housing project proposal is reviewed first in the Chicago FHA office where individual determinations are made by the following officials of the FHA:

1. Valuator.
2. Chief valuator.
3. The architect.
4. The cost estimator.
5. The head of the Mortgage Risk Department.
6. The chief underwriter.
7. The director of the Chicago FHA office.

The final determination represents the joint decision of these units, no one of which has authority to countermand the decisions of another.

In the case of the Park Forest application, the same type of joint review process was followed by the following technical officials of the Underwriting Division in the FHA office in Washington:

1. The valuator.
2. The chief valuator.
3. The cost estimator.
4. The mortgage risk chief.
5. The chief underwriter, Curt Mack.
6. And finally, to the FHA Commissioner himself.

The final determination of the size of the Park Forest loan, therefore, represented the combined judgment of the FHA Chicago and Washington offices and was not the decision of Powell or any other single official.

Powell's function was administrative. The amount of a loan or increase, if any, was a matter entirely within the jurisdiction of the technicians within FHA as listed above, i. e., the Underwriting Division.

DECEMBER 2, 1948.

MR. WILLIAM NELSON,  
*Merchants National Bank in Chicago,  
 3158 W. Madison Street, Chicago, Ill.*

DEAR BILL: I am herewith delivering to you the note of Clyde L. Powell in the amount of \$5,500 due 90 days after September 9, 1948, or December 8, 1948.

Clyde Powell is under the impression that I have discounted this note with your bank, as I did the original note, which was in the amount of \$7,500. You will, of course, recognize that he mailed me his check of \$2,000 principal and \$75 interest when the previous note was due, resulting in my taking this note of \$5,500.

While this note is being delivered to you to put through for collection, I would appreciate that same be handled in a fashion which would indicate that I had discounted it with your bank. Will you therefore send a notice promptly advising Mr. Powell that you are the holder of the note due on December 8 in the amount of \$5,500, plus interest 4 percent.

Thanks very much for your cooperation.

Sincerely yours,

MERCHANTS NATIONAL BANK IN CHICAGO  
MADISON STREET AT KEDZIE AVENUE

DECEMBER 14, 1948.

Re Clyde Powell.

Mr. NATHAN MANILOW,  
111 West Monroe Street, Chicago, Ill.

DEAR SIR: In accordance with your request, we enclose herewith the following described notes signed by Clyde Powell:

Canceled note, dated June 9, 1948, in the amount of \$7,500. Note dated September 9, 1948, in the amount of \$5,500.

Yours very truly,

Bill,  
WILLIAM G. NELSON, *Vice President.*

SEPTEMBER 23, 1954.

Hon. ALBERT M. COLE,  
*Housing and Home Finance Administrator,*  
Washington 25, D. C.

DEAR MR. COLE: My attention has just been directed to an excerpt from the report of August 31, 1954, of your erstwhile Deputy Administrator, Mr. William F. McKenna. On page 18 of this widely distributed report, in the third full paragraph, the following is the last sentence:

"An illustration, in the case of the Park Forest Apartments in Illinois, is the approval of an increase in commitments, in acknowledged violation of the statutes, apparently for the reasons that the amount of the increase (over \$500,000) was 'inconsequential' in relation to the total amount loaned and was probably asked for in order to justify a rental increase."

We recognize that the activities of your office, as well as others, have resulted in a burden which sometimes produces inaccurate information. The pressure under which you and others have been operating would normally cause us to excuse any casual or unimportant error. We are certain, however, that you will agree that the above-quoted section in referring to what is a violation of law is not a casual or passable error. Consequently, we feel impelled to call attention to the actual facts involved and to request that proper amends be made.

The suggestion that the increase in commitments in the case of Park Forest was in violation of statutes and what is more important acknowledged to be so is predicated on either a careless examination of the files or a complete lack of understanding of the law. We refuse to believe that it is malicious, although one could with propriety draw such a conclusion in view of the facts.

It will interest you to know that Mr. McKenna's office had investigators examine our books and records many weeks ago. At that time we opened our records without reservation for such an examination. In addition, several questions were raised and answered, but at no time was this particular matter discussed with us. Had it been, the facts that will be hereinafter discussed would have been available and this unfortunate and shameful reference would not have appeared.

The facts are as follows. In the summer of 1949, when the nine 608 projects that were being built in the village of Park Forest were nearing completion, preliminary oral conversations were held with the mortgage bankers and the local FHA office with a view to securing an adjustment in the commitments because of increased costs incurred by the sponsor beyond the control of the sponsor. In a preliminary examination of the facts it was readily conceded that the eligible increase in costs was at least four times the maximum that would be permissible under the statutory limitation of \$1,800 per room if it were applied. There never was any controversy about these facts. Early in the discussions, however, the general counsel of the FHA questioned the authority of the Commissioner to consider such an application, in view of the change in the interim in section 608 limiting the amount of any one mortgage commitment to \$8,100 per unit, in lieu of the \$1,800 room provision theretofore permitted.

The Park Forest projects were not alone involved in this predicament, in spite of prior representation by the FHA in its 1946 program. When Mr. Bovard raised this question, we attacked his position with a brief that was filed with the FHA on August 26, 1949, in which reference is made to the Bovard opinion of August 24, which the Commissioner made available to us. A copy of this brief is enclosed for ready reference. We simultaneously appealed to the Office

of the Administrator of the Housing and Home Finance Agency pointing out the inequities of the interpretation of the FHA. Extended discussions were held with counsel, both in the Administrator's office and in the FHA. The whole purport of our position was that the Congress did not intend to deprive the Commissioner of the FHA of his continuing authority to make adjustments under the act under which he issues commitments until final endorsement is secured. It was our view the fact that Congress had amended section 608 and changed the mortgage limits to \$8,100 per unit did not change the authority of the Commissioner to complete all transactions which he commenced under the earlier mortgage limitation of \$1,800 per room. Mr. Bovard, nevertheless, persisted in his view although he was willing to concede that there was some doubt about his position. The legal department of the Office of the Administrator which participated in the matter on appeal suggested that whatever this authority was it should be clarified in order to avoid such question.

Frankly, we felt so keenly on this subject that we directed our counsel to examinations preparatory to the institution of a legal action. We felt that the whole integrity of the FHA system was involved and that the Bovard opinion could not be supported by any reasonable interpretation of congressional intent. Nevertheless, at this point we were stopped from making application for the consideration of increases about which no question of fact could or ever was raised.

In the meanwhile, the Congress was considering amendments to the Housing Act. On October 6, 1949, the Senate passed Senate Joint Resolution 134. In section 3 of this resolution, language is contained which authorizes the adjustment of mortgage insurance commitments notwithstanding changes in the law prior to final endorsement. A few days later, the House concurred in this action thereby permitting projects in the predicament of the Park Forest 608's to secure relief under the law under which they were committed. This set at rest any question raised by Mr. Bovard. It rendered applications on behalf of these projects eligible and legal.

The files of the FHA should disclose that thereafter on November 10, 1949, the various Park Forest companies made application through their representative mortgagees for this relief. It was not until February 1, 1950, that the FHA approved these applications for increase in mortgage commitments.

Under these circumstances, it is entirely beyond us how any careful examination would have failed to disclose the complete error of the statement found on page 18 of Mr. McKenna's report. In our understanding of common ordinary language the violation of a statute, in order to secure additional funds, is tantamount to the commission of a crime. To charge on with such a reprehensible act without fact calls for redress. We are certain that your examination of the facts will cause you to want to correct the record and to advise us of that fact.

In addition, Mr. McKenna invades the area of metaphysics when he states that this increase was approved "apparently for the reasons that the amount of the increase (over \$500,000) was 'inconsequential' in relation to the total amount loaned and was probably asked for in order to justify a rental increase." The fact is, as I have previously stated, that the increase in construction costs was more than four times the amount of the approved loan increase and which approval was, therefore, fully justified on the basis of this increase in cost over which the sponsor had no control. Where Mr. McKenna got the idea that the reason for the increase was due to anyone's feeling or conclusion that the amount of the increase was "inconsequential" remains a mystery, as does his next statement that the reason for the request of the increase was in order to justify a rental increase. Anyone who is conversant with FHA permissible rentals and who would trouble himself to examine the rent levels in the Park Forest projects would know that at no time have we asked for or applied the maximum rents permissible under FHA regulations. On the other hand, whether a mortgage commitment was increased or not would have little to do with the permissible rent levels if the total approved cost was the same. This matter constitutes a different type of issue than that in which the charge is made of violating the statutes. At the same time, it indicates either a lack of understanding of the law, the regulations, and the operation of real estate thereunder, or else the lack of industry in securing the available information on which to base a sound statement instead of a metaphysical conclusion.

Of course, Mr. McKenna is careful to use the words "apparently" and "probably" as though this reluctance on his part to make positive allegations of the

matters stated relieves him of the onus incident to the falsity of his charges. All that these words accomplish is to indicate that he admits that he does not know what he is talking about and that he is merely venturing into the field of speculation.

We deeply regret the necessity of this communication. We know the complexities of your problems and we do not seek to add to your burdens. However, we are certain you will agree that in all justice and fairness these references constitute a blot and a smear which you personally would never tolerate.

With best wishes.

Sincerely yours,

NATHAN MANILOW, *President.*

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MEMORANDUM IN SUPPORT OF PARK FOREST COMPANIES' REQUEST TO SECURE  
CONSIDERATION OF INCREASED COSTS INCURRED BEYOND THEIR CONTROL

HISTORICAL BACKGROUND

In 1946 and 1947 the pressure was mounting to produce rental housing throughout the Nation. Private enterprise was importuned to make its contribution to the solution of this serious social and economic problem. Congress enacted section 608 of the National Housing Act, providing 90 percent loans in amounts not exceeding \$1,800 per room for such part of projects as were attributable to dwelling use. This marked a substantial increase over earlier dollar limitations to encourage activity in a market which was characterized by rising construction costs.

The National Housing Agency (since succeeded by the Housing and Home Finance Agency) directly and primarily through its constituent, the Federal Housing Administration, actively campaigned to secure private interest in rental housing construction. It liberalized regulations and processing procedures; it reduced working capital reserve requirements; and conscientiously encouraged builders, mortgagees and others to get into the program.

Among other things that deterred participation in the program was the tendency for costs to increase. It was generally conceded that construction labor, which had not kept pace with industrial labor in wage increases, was due to receive one or more upward adjustments. Material prices showed little, if any, sign of stabilization. In this situation the Federal Housing Administration adopted a policy of recognizing cost increases beyond the control of the mortgagor and expressed it in a field letter dated December 24, 1946, which was distributed to all field offices. Copy of this letter is attached as exhibit 1.

This letter, liberalized regulations, expedited processing procedures and related matters were the subject of conferences held by the FHA throughout the Nation, to which prospective sponsors, mortgage bankers, prospective mortgagees and others were invited. The sponsors of the Park Forest project, its bankers and principal staff members attended such meetings in Chicago, prior to embarking on the projects involved.

In February of 1947 the American Community Builders, Inc., as sponsors, through Service Life Insurance Co. and Dovenmuehle, Inc., as mortgagees, filed 9 applications for an equivalent number of 608 projects to be developed by 9 different companies. These applications were processed in the Chicago office of the Federal Housing Administration. Before the issuance of commitments they were reviewed by the Washington office representatives. After certain figures were arrived at by such processing, a conference was held at the instance of the FHA in Washington in July 1947, attended by Messrs. Richards, Powell, Mack, Bremer, Bovard for the Washington office of the FHA, Mr. Kelly, director of the Chicago office, and Messrs. Klutznick and Manilow for the sponsors. The FHA conferences were in touch with Mr. Foley with respect to the matter on several occasions during the day. The principal point of discussion turned about a reduction in the total amount of the commitments of nearly \$250,000 from the amounts arrived at in processing. During this conference reference was made by FHA officials to the letter of December 24, 1946, supporting their position that a cut did not matter if it later developed that increased costs beyond the control of the sponsor were incurred. Subsequently, on July 24, 1947, nine commitments were issued reduced in amounts to conform with the position taken by FHA in the Washington conference.

## FHA INVESTIGATION

## PARK FOREST COMPANIES

Pertinent data with respect to each commitment follow:

| Project number    | Units        | Total rooms   | Loan amount       | Increase if maximum of \$1,800 per room was obtained |
|-------------------|--------------|---------------|-------------------|--|
| 071-40073.....    | 290          | 1,522         | \$2,634,600       | \$105,000  |
| 071-40074.....    | 370          | 1,956         | 3,444,200         | 76,000   |
| 071-40075.....    | 260          | 1,261         | 2,247,300         | 22,500   |
| 071-40076.....    | 384          | 2,027         | 3,616,300         | 32,300   |
| 071-40077.....    | 404          | 2,133         | 3,756,300         | 83,100   |
| 071-40078.....    | 220          | 1,022         | 1,810,900         | 28,700   |
| 071-40079.....    | 190          | 926           | 1,653,000         | 13,800   |
| 071-40080.....    | 502          | 2,554         | 4,498,500         | 98,700   |
| 071-40081.....    | 390          | 2,045         | 3,551,200         | 129,800  |
| <b>Total.....</b> | <b>3,010</b> | <b>15,446</b> | <b>27,212,300</b> | <b>590,500</b>                                       |

After the issuance of the commitments, actual closing did not take place until early October 1947. One of the principal factors in delay was the time required for the surety company to satisfy itself and issue the required performance bonds. In the negotiations for bond, the surety company was informed by the sponsors, mortgagee representatives, and local FHA officials of the provisions of exhibit 1. It asked for and received calculations indicating the amount of additional mortgage proceeds that would be available if circumstances arose which permitted the mortgagor to qualify for such further sums.

On August 10, 1948, an amendment to section 608 became effective by act of Congress. Under its terms the provision for \$1,800 per room was replaced with a maximum of \$8,100 per unit. The factors leading up to this change by Congress were many. However, certain key items stood out: (1) Costs had risen to a point where high-cost areas could no longer take advantage of the \$1,800 per room limitation. There was agitation for an increase to \$2,000 and more per room; (2) the \$1,800 per-room limitation made it impractical to qualify elevator-type apartments with small room counts per unit.

While the foregoing were not exclusive reasons, certainly they were basic in the discussions that motivated Congress to make the change. It is significant that nothing in the new language, nor, to our knowledge, in the hearings before the congressional committees or the debates on the floor, even remotely suggested a congressional intent to require a reopening of cases insured under the \$1,800 per room provision for review or processing under the \$8,100 per unit provision.

On November 23, 1948, the FHA issued its field letter No. 168, copy of which is attached hereto as exhibit 2. It briefly restated the policy to recognize increased costs beyond the control of the sponsor, but it specifically limited maximum increases to \$8,100 per unit. Under this provision we are informed that some, if not many, cases on which commitments were issued prior to August 10, 1948, and where unit sizes were less than 4 or 4½ rooms, received substantial increases by reprocessing.

## PARK FOREST COMPANIES

The Park Forest projects are nearing substantial completion. Three cases are ready for closing; two more will be ready in a month or two at the most, and the remainder in a relatively short time thereafter. It was impossible as a practical matter to comply with the conditions of exhibit 1 and apply for an increase in mortgage sum until actual costs were nearly in. Now, upon informal application we are apprised that the cases cannot qualify, since the mortgages insured and to be insured already exceed \$8,100 per unit, although less than \$1,800 per room. All policy-making officials, from the Commissioner and Assistant Commissioner in charge of rental housing down, state a willingness to accept the cases for processing, except for a legal opinion which would not permit any increase if processed.

On August 24 this matter was verbally submitted to Mr. Bovard, general counsel for the FHA. His position is set forth in a memorandum of the same date, which is quoted in full as follows:

"AUGUST 24, 1949.

"To: Mr. Franklin D. Richards.  
"From: B. C. Bovard.

"Verbal inquiry from Mr. Klutznick with respect to possibility of increasing the amount of certain commitments issued under section 608 prior to August 10, 1948.

"It is my understanding that the commitments in question were issued prior to August 10, 1948, in amounts in excess of \$8,100 per family unit, although somewhat less than \$1,800 per room, which was the statutory limitation at the time such commitments were issued.

"The question presented is as to whether or not this Administration has the legal authority at the present time to increase the amount of such commitments to \$1,800 per room, in view of the general policy expressed to give consideration to requests from the mortgagor and mortgagee for an increase in the amount if, during the construction period and prior to final endorsement of the credit instrument, the cost of constructing the project has risen above the original estimates by causes beyond the control of the mortgagor.

"I think it will be readily conceded that such an expression of general policy did not constitute a commitment to insure an increased mortgage, but merely indicated a willingness to consider requests for increase which consideration would necessarily be subject to changes in statutory authority.

"If such an expression of policy could have been construed as a commitment to insure for an indefinite amount, it would have been impossible for us to maintain any control over the amount of unused authorization and would have involved other legal complications.

"The issuance of a commitment in an increased amount has always been construed by us as a present exercise of the Commissioner's authority to insure, and subject to the statutory limitations existing at the time such authority is exercised.

"I am attaching copy of Mr. Powell's general letter of November 23, 1948, to directors of all field offices, explaining that this Administration will continue to give consideration to such requests in accordance with the policy referred to, but pointing out that—'in approving the increased mortgage for insurance it must be determined that the administrative rules in force at the time of such approval have been complied with \* \* \*,' and expressly referring to the \$8,100 per family unit limitation.

"I am also enclosing copy of letter from Mr. Foley, under date of November 8, 1948, to Javits & Javits, attorneys, New York City, stating:

"As explained in the last paragraph of my letter of October 8, the Federal Housing Administration would be in a position to consider the issuance of a commitment at this time in an increased amount but only in accordance with the limitations contained in the law on the date of the issuance of the increased commitment.'

"While I am entirely sympathetic with Mr. Klutznick's request, I regret to advise that in my opinion the granting of such request at this time would exceed the Commissioner's authority under the act."

It is our view that Mr. Bovard's position is in error for several reasons. They will be stated and discussed separately as follows:

*I. Exhibit 1 is binding on the FHA so long as the applicant complies with its terms*

The position that exhibit 1 did not constitute a commitment to insure an increased mortgage is insupportable. It certainly constituted an offer on the part of the FHA to do, subject to the conditions of exhibit 1. This offer was accepted when the sponsors acted in going forward. In its first sentence it expresses its whole purpose by stating: "In order to stimulate the immediate production of rental housing \* \* \*." This is even fortified by the last paragraph, which states: "It is thought this change in policy will result in the immediate production of rental housing projects by taking into consideration necessary construction costs in bringing such projects to completion." It is not claimed that the FHA is without authority to issue such a policy which commits itself to act in the future upon the happening of certain events. FHA cannot

withdraw such an offer, which has been accepted by action, without the consent of the other parties.

*II. Exhibit 1 is a part of the real contract between the FHA, the mortgagor, the mortgagees, and the bonding company*

It is conceded by all that exhibit 1 was generally held out as an inducement to private entrepreneurs to enter into obligations to provide sorely needed rental housing. It represented an offer on the part of the FHA to act in a certain way, if others would undertake the task of providing rental housing under section 608. The mortgagors, mortgagees, and the bonding company relied upon these oral and written representations. The assurance of at least limited protection against rising costs was a substantial inducement to the parties other than the FHA. This being true, FHA must act as it held out it would, or else cause substantial damage to parties who relied upon its representations. It is elementary in the normal civil matter that the mortgagor could recover damages for failure of another party to go forward under similar circumstances. Certainly the standard of morality should be no less where a governmental agency such as the FHA (which acts in a corporate, as distinguished from a governmental, capacity) is involved.

It is also elementary that a contract consists of all pertinent writings. In this case it certainly included the application, the commitment, the building loan agreement, the note and mortgage, the plans and specifications, and all pertinent rules, regulations and writings of the FHA bearing on the case. FHA cannot contend that detached rules and regulations and policy statements that favor it are a part of the agreement without accepting the onus of those that favor the mortgagor.

*III. Congress did not change the statutory authority which controls the transactions involved herein*

It is claimed that on August 10, 1948, the new act of Congress changed the statutory authority of FHA so it could no longer deal with the transactions herein involved in the manner promised and committed in exhibit 1, the letter of December 24, 1946. Mr. Bovard states: "The issuance of a commitment in an increased amount has always been construed by us as a present exercise of the Commissioner's authority to insure, and subject to the statutory limitations existing at the time such authority is exercised.

Note the underlined language. Nowhere is it stated nor has it been contended that at any time did Congress expressly state that cases insured under a prior law should be administered under a new law. As a matter of fact, if Mr. Bovard's contention is carried to its logical conclusion, a completely untenable situation ensues. If increases are covered by the new statute, which is silent on the subject, why isn't the entire transaction likewise covered since the new statute is silent on that also? If \$8,100 per unit is the limit applicable to old cases, then how can FHA insure past \$8,100 even though FHA committed to do so under a prior statute? FHA is doing just that each month.

The obvious and reasonable answer is that the Congress intended no such strained conclusion. The whole legislative and administrative history of FHA suggests that Congress intended that its prior acts should control cases initiated and committed for under its authority. Any other interpretation is contrary to the spirit of our basic law and breeds chaos and discrimination. If FHA can act in all respects in completing the instant cases under the statute in force at the time it entered into its obligations, it must follow that it can honor its obligation as set forth in exhibit 1.

No. Congress did not change the statutory authority. The legal interpretation which is predicated on the proposition that it "has always been construed by us as a present exercise of the Commissioner's authority \* \* \*" may have been more policy and administrative procedure than law. It is possible that as such it was never challenged because the exceptional conditions created by exhibit 1 and the congressional act of August 1948 never arose. As a matter of law, there is just nothing in the record which discloses the slightest intent on the part of Congress to stop the FHA from carrying its promise and commitment as set forth in exhibit 1.

Furthermore, the contention that the act of increasing insurance is a new act to be controlled by a new statute hardly squares with the language used in describing the transaction in either exhibit 1 or exhibit 2. In exhibit 1 the following reference supports the notion that what is proposed is the amendment or supplementation of an original act as promised, rather than the performance of a new act:

"Upon receipt in Washington of your recommendation and the supporting data above referred to, you will be supplied with the proper supplemental commitment letter authorizing such increase and instructions on the procedure to be used by the mortgages and the mortgagor in amending the contract documents and legal instruments to accomplish such increase."

The words "supplemental" and "amending" characterize the true nature of the transaction involved. It is adding to something that exists and making change in something that exists rather than a new and independent act that is involved. In short, it is doing what was promised would be done if certain contingencies arose. If the FHA had the power to make that promise in the first instance, which everyone concedes it had, then nothing short of an ex post facto law could even attempt to release it of this responsibility. In this instance not only is there no express act by Congress on the subject, but there is every indication that Congress had not the slightest knowledge that its act was to accomplish what counsel contends it to mean.

*IV. Administrative convenience does not alone support a legal interpretation*

Mr. Bovard makes the point that: "If such an expression of policy could have been construed as a commitment to insure for an indefinite amount, it would have been impossible for us to maintain any control over the amount of unused authorization and would have involved other legal complications."

We do not know what other legal complications are involved so we can only state that whatever they are, if apprised we will be pleased to comment on them. But, the first part of the statement is explicit enough. Literally read, it says in effect that when exhibit 1 was announced, no administrative controls of insurance funds were established, apparently in the hope that no one would seek the relief they were promised and on which promise they relied. I doubt that this is what it means. Besides, it seems to us it was the duty of the FHA to assume that some claims would be made (and they were) and establish reserves of unused insurance authority against such possibility. Otherwise, exhibit 1 would have been a fraud, which we know it was not. We see no great administrative problem in this, but assuming that it was most difficult and inconvenient, it still provides no basis for reaching a legal conclusion. This is a question of administration that should have been contemplated prior to issuing exhibit 1. It is inconceivable that such a ground merits consideration where legal rights are involved.

*V. The support of the position of the legal department of FHA creates discrimination that certainly Congress never contemplated when it enacted the bill that became law August 10, 1948*

Prior to August 10, 1948, FHA insured many cases under section 608. Everyone had notice of all of the conditions of the law as to \$1,800 per room, exhibit 1 and the multitudinous regulations that govern these matters. In some communities small units were needed, in others good judgment dictated large units with many rooms. From the FHA point of view, certain projects that averaged 3 rooms a unit were better insurance risks in some communities than projects that had units averaging 5 rooms or more, and vice versa. At least everybody started from scratch and took his chances on a known law, policy, and regulation.

After August 10, 1948, everyone who started even ended up thrown into separate categories in a way that certainly Congress never expressly indicated it expected. If the mortgagor was building 4½ rooms or less and had the full \$1,800 a room which he was promised, he nevertheless could pick up more than he was promised under exhibit 1 if he could support. On the other hand, the comparative few who built for families with children and had not received even the full \$1,800, if they had a higher room count were left out in the cold. They were told that FHA could not follow through since Congress had changed its mind. The net result is not supported by any conscious or discernible act of Congress and creates a situation in which outright discrimination is unavoidable. Any legal interpretation which invites discrimination should be suspect. Such interpretations should be avoided, not courted.

*VI. The position of FHA is contrary not alone to law, but to the best interest of FHA and the whole concept of mortgage insurance*

FHA's remarkable contribution to the housing solution of our Nation has been engendered more by the generally accepted inviolability of its commitment than by any other single factor. No man can fairly attack this basic integrity so long as he is apprised of the rules of the game, relies on them, and FHA

performs as represented. Any legal interpretation short of an act of Congress which permits or forces a variation from this high standard of integrity defeats rather than advances the FHA program. Suppose Congress had not amended the act in August 1948 and large numbers of small unit builders received their full \$1,800 per room but still suffered hardship. No one could charge that FHA reneged on a thing. The fact that many of them were succored by the amendment does not justify reneging on those few who no less relied on FHA representations. The legal interpretation, in our opinion, unnecessarily and without foundation in law achieves exactly such a situation. The simple alternative is to go back to what Congress must have intended—all business transacted under a given act should be governed by that act and all rules, regulations, policies, etc., legally issued under that act, unless Congress expressly declares otherwise or until the transaction is closed. This is what FHA has stood for during the years.

#### SUMMARY

The applicant here seeks merely the right to have its cases processed as promised by exhibit 1, and if the evidence it presents complies with the conditions set forth, it seeks the relief promised when it and those associated with it entered into certain transactions relying on exhibit 1, among other things. We emphatically challenge any contention that Congress by its action in August 1948, withdrew from FHA the right and power to complete the transactions it entered into legally under the existing acts of Congress in 1947. We insist that any increase now authorized is not a new deed under the congressional act of 1948, but rather the appropriate and legal amendment, in accordance with prior promise, of an old deed performed under the law in effect in 1947 and governed by it. We submit that the document identified as exhibit 1 is as much a part of the understanding of all of the parties as the multitudinous other writings, rules, regulations, formally stated agreements, etc. It can no more be revoked by unilateral act than other express promises or commitments. FHA acts in all these matters in a capacity comparable to a private corporation—the powers it discharges are not governmental in character, but rather corporate in essence. It cannot escape from the clear implications of its acts and deeds under the guise of a congressional change of mind. While we question that Congress could legally even expressly amend the agreements of FHA once legally entered into, in this case we do not have to go that far. It is not demonstrable that Congress had even the most remote intention to do so expressly.

Consequently, we urge that it is in the best interest of all concerned to adopt that legal interpretation which is supported by the history of the legislation, which protects the integrity and high character of FHA, which avoids obvious discrimination, and which permits the conclusion of agreements and transactions on the basis of promises, commitments and understandings which prevailed at the time the agreement was entered into. To do less is to stretch congressional intent beyond any reasonable length and to support injustice.

Respectfully submitted.

AMERICAN COMMUNITY BUILDERS, INC.,  
(And Affiliated Park Forest Companies).

#### EXHIBIT 1

Section 608, Rental Housing, 117.

NATIONAL HOUSING AGENCY,  
FEDERAL HOUSING ADMINISTRATION,  
Washington 25, D. C., December 24, 1946.

To: Directors of all field offices.

Subject: Review of insured mortgage transactions under section 608 for the purpose of increasing the mortgage where such increase is justified.

In order to stimulate the immediate production of rental housing projects under section 608 of title VI of the National Housing Act, it has been decided as a matter of general policy to give consideration to increasing the amount of an insured mortgage where a firm commitment (FHA form 2432-WOF) has been issued, the transaction closed, and the mortgage initially endorsed for insurance, but during the construction period and prior to final completion, construction costs have risen for reasons beyond the control of the mortgagor.

In such cases it will be necessary for the mortgagee and the mortgagor to present detailed evidence supporting such excess costs and if, in the opinion of the Director, the mortgagor's claims can be substantiated, the case may be reviewed by the underwriting section of the insuring office, a new project an-

analysis (FHA form 2264-W) prepared, together with an adequate analysis of the increased costs, and forwarded to this office with the Director's recommendation.

It is understood, of course, that all legal limitations under the National Housing Act and administrative rules and regulations must be observed and the final amount of the mortgage to be insured necessarily will have to be supported by adequate rental income. If it is necessary to increase the rentals established in the initial processing of the case in order to support an increase in the mortgage, this must be done prior to occupancy of the units and such rentals must fall within established rental ceilings.

Upon receipt in Washington of your recommendations and the supporting data above referred to, you will be supplied with the proper supplemental commitment letter authorizing such increases and instructions on the procedure to be used by the mortgagee and the mortgagor in amending the contract documents and legal instruments to accomplish such increase.

The same review procedure will be followed where a commitment to insure upon completion (FHA form 2453-W) has been issued and you will be advised how to amend such commitment.

In giving consideration to transactions of this kind and agreeing to review cases where the mortgage has been initially endorsed for insurance, or where a commitment to insure upon completion has been issued, you will base such review on the costs of labor and materials at the time they were actually furnished for the construction of the project.

It is thought this change in policy will result in the immediate production of rental housing projects by taking into consideration necessary construction costs in bringing such projects to completion.

Sincerely yours,

CLYDE L. POWELL,  
*Assistant Commissioner.*

#### EXHIBIT 2

FEDERAL HOUSING ADMINISTRATION,  
*Washington 25, D. C., November 23, 1948.*

Section 608, Rental Housing, Letter 168.

Rental Housing Processing Guide, Part II, Section 2.

To: Directors of all field offices

Subject: Section 608 procedure for increasing insured mortgages and commitments to insure upon completion prior to final endorsement.

This letter cancels and supersedes section 608 rental housing letter 117 outlining procedure on the same subject.

This Administration will continue to give consideration to requests from the mortgagor and mortgagee for an increase in the amount of an insured mortgage or a commitment to insure upon completion if, during the construction period and prior to final endorsement of the credit instrument, the cost of constructing the project has risen above the original estimates by causes beyond the control of the mortgagor.

A mortgage which has been initially and finally endorsed for insurance is a closed case and cannot be reopened for this purpose.

It will be necessary, as heretofore, for the mortgagor to present detailed evidence supporting the increase in the overall cost of constructing the project and, if in the opinion of the Director the mortgagor's claim is substantiated, the project may be reviewed by the underwriting section of the insuring office. The mortgagor must establish by concrete evidence its actual increase in costs. Merely recognizing a rise in the cost index will not be sufficient.

The final amount of the mortgage to be insured must be supported by adequate rental income. If it is necessary to increase the rentals established in the initial processing of the project in order to support an increase in the mortgage, this should be done prior to occupancy of the units and such rentals shall not in any event exceed an amount necessary to show a net return of 6½ percent on the replacement cost of the property.

A new project analysis, FHA Form 2264-W, will be prepared, together with an analysis of the increase in the total cost of construction. The recent amendments to the act of August 10, 1948, make it necessary to prepare the project analysis on the basis of such amendments, using in addition to other criteria, the December 31, 1947, or current costs, whichever is lesser, and the \$8,100 per

family unit. The purpose of the project analysis is to arrive at the maximum insurable mortgage based on said limitations and the other criteria.

The amount of allowable increase will be the actual increase in the overall cost of constructing the project as substantiated by the mortgagor's evidence of the maximum insurable mortgage as shown on the project analysis, whichever is the lesser. A request based solely on an increase due to the per unit limitation rather than the per room limitation will not be considered.

In considering increases in cost due to approved change orders examination should be made as to the nature and necessity of such changes. Changes which are merely embellishments or ornamentation which do not enhance the rentability or habitability of the project should not be considered.

In order to reduce the reprocessing of projects as much as possible the insuring office shall not consider such requests where only a small increase in costs has been encountered which does not work a definite hardship on the builders and which would result in only a slight increase in the insured mortgage.

In approving the increased mortgage for insurance it must be determined that the administrative rules in force at the time of such approval have been complied with, except that if such increased mortgage is not in excess of \$200,000 any change in the nature and extent of the supervision by the Commissioner which would be required by section V, subsection 4 is hereby waived. Particular attention is called to the certificate required by section IV, subsection 2, which must be obtained.

The revised FHA Form 2264-W together with an adequate analysis of the increased costs, shall be forwarded to this office with the Director's recommendation. If the request for increase is approved, you will be supplied with the proper supplemental commitment letter and instructions on the procedure to be used by the mortgagee and the mortgagor to accomplish the increase. A letter will be furnished also in the case of a commitment to insure upon completion containing instructions as to what amendments are necessary to the outstanding commitment.

Very truly yours,

CLYDE L. POWELL,  
*Assistant Commissioner.*

The CHAIRMAN. Where is the lady that is handing out this information? Is she here, please? I would like to know how much she has been paid for doing that. Maybe we will call her this afternoon. Will you please come forward? Is the lady who handed this out here?

Is Ella Roller present?

The first statement of this release, I would like to remind Mrs. Roller, was a hundred percent absolute falsehood. Mr. Manilow did not testify to what it says he did. Therefore, that whole business was written—it was written because it is printed—it was written several days ago or at least yesterday. But it is not the testimony of Mr. Manilow.

Our next witness will be Mr. Nicholas C. Wright. Mr. Wright, will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF NICHOLAS C. WRIGHT, NORFOLK, VA.

Mr. WRIGHT. Yes, sir.

The CHAIRMAN. Do you have an attorney with you?

ATTORNEY. I don't think he requires an attorney. I will sit here with him.

The CHAIRMAN. I don't care whether he has one or not. It is entirely up to him. We just want to be fair with all our witnesses, that is all. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Wright, will you give the reporter your full name and address, please?

Mr. WRIGHT. Mr. Nicholas Carter Wright, Norfolk, Va.

Mr. SIMON. You live at 1701 Cloncurry Road.

Mr. WRIGHT. Cloncurry Road.

Mr. SIMON. That is Norfolk, Va.?

Mr. WRIGHT. Yes.

Mr. SIMON. What is your business, Mr. Wright?

Mr. WRIGHT. I am an automobile dealer.

Mr. SIMON. Have you ever had any interest in building real-estate projects under the financing of the Federal Housing Administration?

Mr. WRIGHT. Yes, sir.

Mr. SIMON. In that connection, did you ever go to see Mr. Powell?

Mr. WRIGHT. Yes, sir.

Mr. SIMON. When was that?

Mr. WRIGHT. It was sometime in 1951 or 1952. I don't recall the exact time.

Mr. SIMON. Who went with you?

Mr. WRIGHT. Mr. VanPatten.

Mr. SIMON. Is that Piggy VanPatten?

Mr. WRIGHT. Yes, sir.

Mr. SIMON. Was he a former FHA zone commissioner?

Mr. WRIGHT. Yes, sir.

Mr. SIMON. Were you and he working together at that time?

Mr. WRIGHT. Yes, sir.

Mr. SIMON. He was working for you?

Mr. WRIGHT. He was working for me. I was paying him a salary at the same time. We had an arrangement whereby anything we made over and above the salary on a 50-50 basis, so I guess we were working for each other and him, too.

Mr. SIMON. He took you to see Mr. Powell?

Mr. WRIGHT. Yes, sir.

Mr. SIMON. Did you go to his apartment or his office?

Mr. WRIGHT. As I recall, we went to his office originally and then we went to his apartment.

Mr. SIMON. Do you recall what day of the week this was?

Mr. WRIGHT. No, sir; I do not.

Mr. SIMON. Can you tell us what month it was?

Mr. WRIGHT. No, sir; I cannot.

Mr. SIMON. Your best recollection was it was either 1951 or 1952?

Mr. WRIGHT. Yes, sir.

Mr. SIMON. Do you recall what time of the day you got to his apartment?

Mr. WRIGHT. No. I think it was after working hours. We left the office and I think we went to his apartment, and we went out to supper. We had a room in the Wardman Park Apartments, and Mr. Powell lived in the Wardman Park Apartments.

Mr. SIMON. Was this a Saturday or weekday?

Mr. WRIGHT. I am sure it was a weekday because we wouldn't have come up on Saturday. It might have been.

Mr. SIMON. You were in his apartment discussing an FHA project?

Mr. WRIGHT. We were trying to get him to—the FHA, somehow or other every time we touched this thing, somehow we worked it through the Navy and they recommended it. There was some law which I do

not understand too much, but it seemed if the Navy were to recommend this project it could be revised in a section 702 or section 608 or one of the numbers that you have in the FHA.

Mr. SIMON. When——

Mr. WRIGHT. Let me finish. Every time that the Navy recommended it, it looked like somebody in the FHA didn't think it was too good a project.

Mr. SIMON. You were trying to persuade Mr. Powell it was a good project?

Mr. WRIGHT. Yes, sir; that is correct.

Mr. SIMON. When you got to his apartment, did a man come in who described himself as a bookie?

Mr. WRIGHT. Well, I think he was called, as I recall. I think this man came in, and in response to a telephone call from Mr. Powell.

Mr. SIMON. Mr. Powell called him and told him to come over?

Mr. WRIGHT. Yes.

Mr. SIMON. Would you know the man's name?

Mr. WRIGHT. No.

Mr. SIMON. Was his name stated?

Mr. WRIGHT. I don't recall.

Mr. SIMON. What was the conversation that you had with Mr. Powell, and this man who came in?

Mr. WRIGHT. I don't think I had any conversation with Mr. Powell, or I mean with the man. The thing went on, that Mr. Powell stated that he knew that this horse was going to win in this race, and he was going to bet some money on it, and as I recall it was somewhere between \$2,000 and \$2,500.

Mr. SIMON. On one horse, on one race?

Mr. WRIGHT. That detail I couldn't answer either. But he did sit down over there in his quarters, or room somewhere, and write a check. I don't know for what amount. And he did give the check to this man that I believed to be a bookie. He did suggest to me that I should do the same thing, because it would be an easy way to make \$2,500.

Mr. SIMON. What did you say?

Mr. WRIGHT. I told him that I liked to ride horses, but that I didn't bet more than \$2 at one time.

Mr. SIMON. Did you make the bet?

Mr. WRIGHT. No, sir. I didn't even bet the \$2. I made no bet at all.

Mr. SIMON. But Mr. Powell bet, you said, \$2,000 to \$2,500?

Mr. WRIGHT. No. I said he gave this gentleman a check and the conversation with me was between \$2,000 and \$2,500. I do not know how much Mr. Powell wrote the check he gave the man for.

Mr. SIMON. But he was urging you to bet between \$2,000 and \$2,500?

Mr. WRIGHT. I don't know how much urging was done. It was suggested.

Mr. SIMON. Now, Mr. VanPatten has testified that the amount was \$1,500. Does that refresh your recollection any?

Mr. WRIGHT. No, sir. My recollection of the amount that he suggested that I was to bet.

Mr. SIMON. Was to be \$2,000?

Mr. WRIGHT. \$2,000 or \$2,500.

Mr. SIMON. Is \$1,500 the amount that Mr. Powell told the man he was going to bet?

Mr. WRIGHT. I couldn't answer that because I don't recall him telling the man that.

Mr. SIMON. How much did he tell the man he was going to bet?

Mr. WRIGHT. I have the impression, sir; that he was going to bet between \$2,000 and \$2,500, and he was suggesting to me that I do exactly what he was doing; that it would be plausible.

Mr. SIMON. After the man left the room, did you have any conversation with Mr. Powell?

Mr. WRIGHT. Well, he was still there. I suppose we had some conversation.

Mr. SIMON. Did you have any conversation about the bet after the man left?

Mr. WRIGHT. None that I can recall.

Mr. SIMON. Mr. VanPatten has testified under oath before this committee that promptly on the man leaving the room, you said to Mr. Powell, in substance or words to this effect, that you knew his game and if you had given him a check for that amount he would divide it with the bookie and wouldn't place the bet and he was trying to get some money from you. Does that refresh your memory?

Mr. WRIGHT. No, sir; I wouldn't know that.

Mr. SIMON. Do you deny you made that statement or a similar statement?

Mr. WRIGHT. Yes, sir. I have no recollection.

Mr. SIMON. Are you saying you have no recollection or you didn't make it?

Mr. WRIGHT. I deny I said it.

Mr. SIMON. You deny you didn't say it?

Mr. WRIGHT. I did not say it.

Mr. SIMON. And you say Mr. VanPatten is not telling the truth when he testifies that you did say it?

Mr. WRIGHT. No. That puzzles me a little bit. I can't say anything about what Mr. VanPatten testified to, but I believe that there is some confusion in the matter somewhere. I don't know where.

Mr. SIMON. If Mr. VanPatten has testified to that, do you say his testimony was untruthful?

Mr. WRIGHT. No, sir. I don't say anything about it at all.

Mr. SIMON. One of you—he has testified, Mr. Wright, that you told Powell that you knew his game and that if you gave him a check he would divide it with the bookie and the bet would not be placed. Either you said that or words to that effect, or VanPatten wasn't telling us the truth. Which is it?

Mr. WRIGHT. No, sir, I didn't say it.

Mr. SIMON. You didn't say it?

Mr. WRIGHT. No, sir, not to Mr. Powell.

Mr. SIMON. Is there any way in which what VanPatten said could be truthful?

Mr. WRIGHT. Well, I could offer this suggestion, which I don't know about. We went back to our quarters. We went back to where we were living, and we discussed our conversation with Mr. Powell, and we discussed whether or not we had accomplished what we had come up here for and something of that nature might have been said.

Mr. SIMON. You might have said that to VanPatten?

Mr. WRIGHT. I might have.

Mr. SIMON. In other words, you think that VanPatten is wrong when he says it was said in front of Powell. You think you said it only in front of VanPatten?

Mr. WRIGHT. I don't think I said it at all particularly. I think we discussed something in that nature later on and I am sure I did not say it to Mr. Powell, because after all, I was in Mr. Powell's room. I don't think that I would have accused him like that in his quarters.

Mr. SIMON. You knew him pretty well, didn't you?

Mr. WRIGHT. No, sir. I had only seen him——

The CHAIRMAN. Why did you go to his room in his apartment?

Mr. WRIGHT. Because he invited us. We had a room at the Wardman Park, and Mr. VanPatten knew Mr. Powell very well. He had been with him for 15 years, more or less.

The CHAIRMAN. Any further questions? Thank you very much.

Our next witness will be Mr. Lewis W. Machir, vice president and secretary of W. C. & A. N. Miller, Washington, D. C.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

#### TESTIMONY OF LEWIS W. MACHIR, WASHINGTON, D. C.

Mr. MACHIR. I do.

Mr. MAHER. May I at this time say, Mr. Chairman, that the defendant, Powell, will not be permitted through counsel to cross-examine any witness, no matter what that witness may say?

The CHAIRMAN. Mr. Powell is scheduled to be one of our witnesses. When we get down to Mr. Powell as a witness, we hope he will discuss with us freely and frankly every bit of information that has been stated here today, and will tell us all he knows about all of the allegations that have been made against him, and that he will give this committee the help that I think a public servant who worked for the Federal Government for 20 years as he did should give the committee.

Mr. MAHER. Mr. Chairman, may I respectfully request that the Chair rule on my request?

The CHAIRMAN. What is your request?

Mr. MAHER. My request is this: Is my understanding of your previous ruling to the effect that Witness Powell through his attorney will not be permitted to crossexamine any witness?

The CHAIRMAN. The answer is "yes." He will not be permitted to crossexamine, but during the noon hour you can tell us what you wish us to ask as questions and we will ask them, if we think they are pertinent and proper.

Mr. MAHER. When the noon hour has come, these witnesses will be gone.

The CHAIRMAN. We will get them back.

Mr. MAHER. They are already excused.

The CHAIRMAN. Let me ask you this: Is your witness, Mr. Powell, going to testify or is he going to hide behind the fifth amendment?

Mr. MAHER. That will be a question to determine when the witness has taken the stand and not now.

The CHAIRMAN. You are attorney for Mr. Powell. You and he both will be given an opportunity, he as a witness and you as an attorney, to be heard and answer all questions we ask of you. Then

when you are on the witness stand you and he—not you on the witness stand—if you at that time will designate the witnesses that you would like to have us ask additional questions of, we will get them back.

Mr. MAHER. And so the constitutional right of the witness to confront the witnesses and cross examine them will be denied?

The CHAIRMAN. That is providing Mr. Powell answers our questions. If Mr. Powell hides behind the fifth amendment, then all bets are off.

Mr. MAHER. There is no provision in the fifth amendment or any other amendment which makes the privilege constitutional.

The CHAIRMAN. There is as far as I am concerned as chairman of this committee.

Mr. MAHER. I am quite aware of that. As far as I am concerned there are other provisions in the fifth amendment.

The CHAIRMAN. Will you please be seated?

Mr. MAHER. I will be seated.

Mr. SIMON. Will you give the reporter your full name and address, please?

Mr. MACHIR. Lewis W. Machir.

Mr. SIMON. Your address?

Mr. MACHIR. Home or office?

Mr. SIMON. Office.

Mr. MACHIR. 4872 Massachusetts Avenue NW.

Mr. SIMON. You are vice president of the W. C. & A. N. Miller Development Co.?

Mr. MACHIR. That is right, sir.

Mr. SIMON. In November or December of 1953, did Mr. Clyde L. Powell buy a piece of vacant real estate from the W. C. & A. N. Miller Development Co.?

Mr. MACHIR. That is right.

Mr. SIMON. What was the date of purchase?

Mr. MACHIR. The contract I have here is dated November 4, 1953.

Mr. SIMON. How much did he agree to pay for that real estate?

Mr. MACHIR. The purchase price was \$12,245.

Mr. SIMON. That is just for the vacant land?

Mr. MACHIR. That is right, sir.

Mr. SIMON. How was this money paid?

Mr. MACHIR. A check was given for \$1,000, and at the time of the settlement, the balance was paid in the amount of \$11,245.

Mr. SIMON. Was \$11,000 of that—it consisted of two cashier's checks of the Riggs National Bank dated December 21, 1951, which I believe you deposited on December 26, 1953?

Mr. MACHIR. There were two cashier's checks, one for \$5,000, one for \$6,000. I don't know the date that they were drawn. They were deposited by us.

Mr. SIMON. They were cashier's checks of the Riggs National Bank, is that right?

Mr. MACHIR. According to my records it says:

Settlement of lot 852, square 1513, Loughborough and Glenbrook NW., two cashier's checks from Riggs National Bank,

and up above there is one for \$5,000 and one for \$6,000.

Mr. SIMON. Did Mr. Powell also ask you to draw some plans for a house he was going to build on that lot?

Mr. MACHIR. Yes, sir. According to an agreement that was signed—wait a minute—December 8, we were to proceed with the drawing of plans, and \$1,500 payment was made, and if we drew the plans and he didn't build the house, we were to receive 2½ percent of the estimated cost of said dwelling.

Mr. SIMON. If you did build the house that was to be applied?

Mr. MACHIR. That was to be applied to the cost.

Mr. SIMON. Did the \$1,500 represent the approximate amount that you estimated would be 2½ percent of the cost of the proposed dwelling?

Mr. MACHIR. I would say yes. I can't answer that.

Mr. SIMON. When you did draw the plans, did you submit to Mr. Powell an estimate of what it would cost to build the house called for by those plans?

Mr. MACHIR. I am sure, yes, sir.

Mr. SIMON. What was the date that you submitted that to him?

Mr. MACHIR. I don't have that record. I have a record where we returned to him a portion of the deposit when it was decided not to build the house.

Mr. SIMON. So that was in May, was it?

Mr. MACHIR. May 21, 1954.

Mr. SIMON. And it would be some time prior to that that you advised him what would be the cost of his house?

Mr. MACHIR. That is right.

Mr. SIMON. What did you advise him would be the cost of the house?

Mr. MACHIR. According to this letter which we returned to Mr. Powell:

Cost of drawing plans for a residence on lot 852, square 1513 at Loughborough and Glenbrook Roads NW., Washington, D. C., 2½ percent of estimated price of \$56,778.

Mr. SIMON. That \$56,000 estimated cost would be in addition to the \$12,000 for the land?

Mr. MACHIR. Well, yes. There is no land in that price.

Mr. SIMON. So the total estimate for the land and building would be \$68,000?

Mr. MACHIR. Well, yes. I mean if you added the price of the lot to it.

Mr. SIMON. I wanted to make clear this house called for a project which when it was built would be \$68,000 cost; the \$50,000 or the \$56,000 does not include the \$12,000 he paid for the land?

Mr. MACHIR. That is right, sir.

Mr. SIMON. Did he submit to you some plans of a house in California that he wanted copied?

Mr. MACHIR. I understand from our architectural department that he did. He brought the set of plans in, which he wanted revised, with certain changes, and alterations, and planned to comply with the District of Columbia Code and stated that this was a house that was in California.

Mr. SIMON. Did he tell you whose house in California it was?

Mr. MACHIR. He didn't tell me. I understand from the architectural department he stated it was his sister's house.

Mr. SIMON. His sister's house in California?

Mr. MACHIR. Yes.

Mr. SIMON. Was there any discussion between your architectural department and Mr. Clyde Powell as to the cost of building the house?

Mr. MACHIR. As I understand it, we cubed the house as close as we could from the plans that he submitted, and added the changes, so much for changes, and gave him an approximate price of around \$54,000.

Mr. SIMON. When was that given to him?

Mr. MACHIR. That date I can't remember. I would say it was around the time that we started the sketches, or started revision of the plan or when he decided to proceed with us drawing the plans.

Mr. SIMON. That was either December of last year or January of this year?

Mr. MACHIR. The agreement which we signed, and was signed by Mr. Powell, was dated December 8, 1953.

Mr. SIMON. So it would be about that day?

Mr. MACHIR. I would say around that day. I don't think it would have been agreed on more than likely before this was.

Mr. SIMON. Would it be an accurate statement to say about December 8 of last year he was contemplating a house which would have cost him \$66,000?

Mr. MACHIR. He was having the plans drawn and after they were finished, he would have to determine whether he was going to proceed with it or not.

Mr. SIMON. Thank you.

The CHAIRMAN. Thank you very much.

We will now recess until 2 o'clock and our first witness this afternoon will be Mr. Cassel, followed by Mr. Chaite and then Mr. Michaux and then Mr. Powell.

Mr. JUDD. Mr. Chairman, may I ask if the witnesses finish this afternoon before 4, you might hear Mr. Alfred Kaskell? I am afraid he can't be here tomorrow in time to get home at his temple observance at 5 o'clock.

The CHAIRMAN. You had better talk to the chief counsel about that.

(Whereupon, at 12:25 p. m., the committee recessed until 2 p. m. the same day.)

#### AFTERNOON SESSION

The CHAIRMAN. Is Mr. Maher here, the attorney for Mr. Powell?

Mr. MAHER. Yes, sir.

The CHAIRMAN. Would you like to come back here and tell us the questions you would like to ask?

(Discussion between Senator Capehart and Mr. Maher.)

The CHAIRMAN. Mr. Maher, in behalf of Mr. Powell, wanted us to ask a question and place into the record what Mr. Powell's average daily balance was during the period the Riggs Bank testified. We have already checked into that. It runs somewhere from \$500 to \$1,500 a day, and sometimes even less. Mr. Maher wanted us to ascertain exactly what the balance was on the first day of January, the first day of April and the first day of September in each of the years, and I don't think we will go to that trouble. We will give you that if you want to figure it out. I don't think it is very material anyway.

Mr. MAHER. Mr. Chairman, may I ask that the witness resume the

stand and I be permitted to ask him specifically to refresh his recollection from those records?

The CHAIRMAN. No.

Mr. MAHER. That right will be denied?

The CHAIRMAN. Yes. I think so. Mr. Powell isn't on trial. He will be given his opportunity here.

Mr. MAHER. Mr. Powell has been on trial for 6 months before this committee.

The CHAIRMAN. Mr. Powell for 6 months has refused to testify before this committee, and he is going to be given an opportunity today to testify.

Mr. MAHER. Very well, sir.

The CHAIRMAN. Mr. Powell, you will remember, through you, has repeatedly said there has never been any direct charges against him. This afternoon when he goes before this committee I think he will then realize as a result of the hearings today there are plenty of direct charges.

Mr. MAHER. Mr. Chairman, will you specify such direct charges?

The CHAIRMAN. You heard the testimony this morning.

I don't care to get into—just bring Mr. Powell up and let him testify for himself when the time comes.

Mr. MAHER. Very well.

The CHAIRMAN. Our first witness this afternoon will be Mr. Albert I. Cassel. Would you come forward, Mr. Cassel, please? Mr. Cassel, will you please be sworn? Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

**TESTIMONY OF ALBERT I. CASSEL, MAYFAIR MANSIONS, WASHINGTON, D. C., ACCOMPANIED BY DANIEL J. ANDERSON, COUNSEL**

Mr. CASSEL. I do.

The CHAIRMAN. Thank you, sir. Please be seated, and the gentleman with you is your attorney?

Mr. CASSEL. Yes, sir.

Mr. ANDERSON. Mr. Chairman, before you start the interrogation of Mr. Cassel, my name is Daniel J. Anderson and I am here representing Mr. Cassel this afternoon.

I think that there should be a correction in the record, and Mr. Cassel has asked that an explanation be made of the list of witnesses which lists the next witness as Arthur M. Chaite, local attorney connected with Cassel. Mr. Chaite is not an attorney for Mr. Cassel, and I am advised that he never has been.

The CHAIRMAN. Mr. Chaite was the attorney for Mr. Michaux and his church. I think the record should show he never was an attorney for Mr. Cassel.

Mr. ANDERSON. Thank you.

The CHAIRMAN. I don't know how that happened, but Mr. Chaite has been, of course, identified as an attorney for Mr. Michaux' church and the project.

Will you please give your full name and address to the reporter, please?

Mr. CASSEL. Albert I. Cassel.

The CHAIRMAN. Your address, please.

Mr. CASSEL. 3922 Hays Street NE.

The CHAIRMAN. You may proceed, Mr. Simon.

Do you have a copy of the testimony in executive session?

Mr. ANDERSON. That has not yet been received. It was promised yesterday afternoon.

The CHAIRMAN. I know. We promised you a copy before you testified. Do you care for a copy now?

Mr. ANDERSON. If you have it there, I would like to have it.

You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Cassel, will you tell the committee what your business is?

Mr. CASSEL. I am an architect.

Mr. SIMON. How long have you been an architect?

Mr. CASSEL. Practicing for myself since 1920.

Mr. SIMON. Since 1920?

Mr. CASSEL. That is right.

Mr. SIMON. Have you done work on Government buildings as an architect?

Mr. CASSEL. I have.

Mr. SIMON. Would you name just a few of them as a way of background?

Mr. CASSEL. Yes, sir. I was the architect for all of the construction at Howard University for those 18 years between 1920 and 1938, and typical of the types of jobs we did then for the Department of the Interior was the old dining hall building at Howard University at about \$200,000, a medical school at Howard University at about \$600,000, the gymnasium and athletic field at about \$400,000, the classroom building at about \$460,000, the chemistry building at about \$700,000, the heat, light, and powerplant at about \$600,000, the walk tunnel, about \$300,000; girls' dormitory, \$700,000.

Mr. SIMON. Were you also a professor at Howard University?

Mr. CASSEL. I was at one time associate professor in the college of architecture.

Mr. SIMON. During what period of time were you associate professor of architecture in Howard University?

Mr. CASSEL. During 1920 and 1924 I was both their architect and associate professor in architecture.

Mr. SIMON. You are familiar, of course, with property in the District here known as Mayfair Mansions?

Mr. CASSEL. I am.

Mr. SIMON. Where is that located?

Mr. CASSEL. Mayfair Mansions is located in Northeast Washington. It is bounded on the east by Kenilworth Terrace, on the west by a strip of land which borders Anacostia River, on the north by J Street, and on the south by Hays Street.

Mr. SIMON. That project was built under financing under section 608 of the National Housing Act, was it?

Mr. CASSEL. Yes, sir.

Mr. SIMON. And you were the architect?

Mr. CASSEL. I was.

Mr. SIMON. When did you first get the idea, Mr. Cassel, for that project?

Mr. CASSEL. I first got the idea for that project along in 1936, and I spent the time between 1936 and 1938 searching the District of

Columbia for a sizable piece of land that might be gotten on which there was some chance of doing a development of that type, for the self-supporting housing, of colored persons.

Mr. SIMON. The record indicates that in July of 1942 you filed an application for a mortgage commitment under section 608. Will you tell us what you did between the time you first became interested in the project up until July of 1952 when this application was filed? Excuse me, 1942.

The CHAIRMAN. That was 1942.

Mr. CASSEL. 1942.

The CHAIRMAN. The application was filed in 1942.

Mr. CASSELL. In 1938 we took an option—when I say “we,” I mean I took an option on the old Benning Race Track, located at the area I have described heretofore in Northeast Washington, which comprised about  $62\frac{4}{10}$  acres. I had in mind such a development as finally went on it. This piece of land, because it lay in the United States park, and on the river, and between Federal properties, came under the Shipstead-Luce Act, which gave the Fine Arts Commission jurisdiction over anything that went on it. It also came under the jurisdiction of the United States Engineering Corps, because it bordered the river and they have jurisdiction of the levels of anything built bordering the river. It came under, of course, the Engineering Department and the Zoning Department of the District of Columbia.

Because it did lay in the property under these Commissions, including the National Capital Park and Planning Commission, which it was named at that time, we had to envisage a development for the entire lot, for the entire tract, before we could get permission to actually file anywhere for any portion of it, because it was limited to the park, and in fact, it is a peninsula projecting into a park.

With that in mind we developed a scheme for the entire tract, with the idea of the front of the tract between what is now Kenilworth Avenue and what is now Kenilworth Terrace, being commercial property, for servicing the real property and the real property so built as to house approximately 1,100 families in garden-type apartments.

We developed the presentation drawings. These drawings were approved by the National Capital Park and Planning Commission as to design only, and because we knew that the development of the entire tract would run beyond a statutory limit of FHA authority to make a single loan, we split the project in our mind into two parts, the first part developing 28 acres between Kenilworth Terrace and a space westward which would take up 17 buildings and left the rest of it for later resubdivision.

It was on this first section, which was designed first to house 430 families and then increased in its design capacity for 594 families, that we concentrated. We did the contract drawings for that, and we made efforts to interest financial institutions to go along with us in our effort to have a financial mortgage sponsor, as was necessary in FHA.

We tried many, many places.

The CHAIRMAN. You say we. Who was we?

Mr. CASSEL. I mean I did.

(Conference between Mr. Cassel and Mr. Anderson.)

Mr. CASSEL. I have gotten into the habit of saying we when I mean I.

The CHAIRMAN. You were the prime mover in this property?

Mr. CASSEL. Yes. I bought the land. I placed an option on the land.

The CHAIRMAN. What did you agree to pay for the land?

Mr. CASSEL. \$150,000 for the entire tract.

The CHAIRMAN. Who finally did pay the \$150,000?

Mr. CASSEL. The \$150,000 finally, sir, was paid in this way. Finally the deposit of \$10,000 was borrowed to bind the property, was made in 1942, by Frank A. O'Hare.

The CHAIRMAN. Who was a builder?

Mr. CASSEL. Who was a builder. At the time the settlement was effected on that first section, an agreement was made with the Eastland Gardens Co. with whom I made the original option.

The CHAIRMAN. Did you have trouble financing this? Did you have trouble interesting FHA?

Mr. CASSEL. We had trouble not only interesting FHA, but we had trouble interesting financial institutions around the country to go along with us because so far as I know, up to that time, nothing of that type had been projected.

The CHAIRMAN. How did you finally interest people?

Mr. CASSEL. Well, I finally got the first interest of FHA by making out of my own 20-year background of experience on the housing requirements of colored people in the District of Columbia, I made a detailed survey neighborhood by neighborhood which tended to show that colored people in the District of Columbia could pay \$15 per room per month and were paying that. That survey was looked upon with favor by the economist for FHA.

The CHAIRMAN. What was his name?

Mr. CASSEL. Dr. Fisher, and thereafter we began to get ahead.

The CHAIRMAN. What happened then, when you proved to Dr. Fisher that the project was economically sound? Then what happened?

Mr. CASSEL. It began to get a little better headway at FHA, but not too far and not too fast. We didn't get anywhere until I did what was suggested to me in a certain telephone call.

The CHAIRMAN. In a certain telephone call?

Mr. CASSEL. Yes, sir.

The CHAIRMAN. Tell us about the telephone call.

Mr. CASSEL. I had a telephone call coming from a very high-placed office which suggested—

The CHAIRMAN. A high-placed office, what high-placed office?

Mr. CASSEL. It came from the office. The person who talked said they were talking from the office of Mr. Marvin McIntyre.

The CHAIRMAN. At the White House?

Mr. CASSEL. Yes. They suggested to me in order to get a loan on the situation I had to have with me people who had political constituency. I have none of those at all.

The CHAIRMAN. They suggested you had to have—

Mr. CASSEL. Political constituency.

The CHAIRMAN. Influence?

Mr. CASSEL. They might have meant that, but they didn't say anything about it at that time.

The CHAIRMAN. Did they suggest the names of anybody?

Mr. CASSEL. They did not suggest the names. Thereafter the suggestion was tied up with what happened.

The CHAIRMAN. Tell us exactly what happened after that telephone call.

Mr. CASSEL. Thereafter I came in contact, I first met Elder Michaux on the street.

The CHAIRMAN. Who is that?

Mr. CASSEL. Elder Michaux.

The CHAIRMAN. Who is he?

Mr. CASSEL. Elder Michaux is an evangelist in town. A radio preacher.

The CHAIRMAN. You met him on the street?

Mr. CASSEL. Yes, on T street, near my office.

The CHAIRMAN. Is that Lightfoot Michaux?

Mr. CASSEL. Yes, sir. He spoke to me about my struggles to get this thing going and said he wanted to see me.

The CHAIRMAN. Did you ever meet him before that?

Mr. CASSEL. No, sir; I did not.

The CHAIRMAN. How did he know you?

Mr. CASSEL. I guess he knew me. I have done and had done in this town many millions of dollars of work for the Federal Government, things of that type. I suppose he knew me. I suppose he knew what I was trying to do. How he knew I don't know.

The CHAIRMAN. In any event he spoke to you?

Mr. CASSEL. Yes, sir.

The CHAIRMAN. Then what happened?

Mr. CASSEL. Thereafter he and I got together at my office, to consider the situation and see what could be done to further this set-up.

The CHAIRMAN. Did he tell you he was representing the White House or people with this political constituency?

Mr. CASSEL. He did not tell me. The elder merely said to me that after looking into the situation that I had what appeared to be a good scheme.

Mr. SIMON. Was he a friend of Mr. McIntyre's?

Mr. CASSEL. I later found out he had some friends at the White House. No question about that.

The CHAIRMAN. What did he tell you he would do for you?

Mr. CASSEL. I am about to say how we got into the actual dealings. The elder told me I had a good scheme. He had people look over my drawings and they were impeccable and that sort of thing and I had everything I needed except influence and money.

The CHAIRMAN. Did he tell you he would supply the influence if you would pay him?

Mr. CASSEL. Yes. We talked back and forth for quite some time and this thing went through its various stages, about what I was to pay for such influence. It was finally decided that I should pay what amounted to about 25 percent of my fee, \$12,500, out of a total of \$55,000, which I was actually to get.

The CHAIRMAN. In other words, Michaux told you that he, for \$12,500, would use his influence?

Mr. CASSEL. That is right.

The CHAIRMAN. Is that correct?

Mr. CASSEL. That is correct.

The CHAIRMAN. What happened then?

Mr. CASSEL. Thereafter, we went through many vicissitudes as to who would be the directors. It was first proposed that a large list of directors——

The CHAIRMAN. A what?

Mr. CASSEL. A large list of directors, about 10 and among those 10 were Mr. George Allen, Mr. Harry C. Butcher.

The CHAIRMAN. Mr. George E. Allen?

Mr. CASSEL. George E. Allen and Harry C. Butcher.

Mr. SIMON. Are you talking about stockholders?

Mr. CASSEL. Talking about stockholders and directors. That is the way the thing was approached first.

The CHAIRMAN. Who approached Mr. Allen and Mr. Butcher?

Mr. CASSEL. Mr. Michaux.

The CHAIRMAN. Did you have a meeting with them?

Mr. CASSEL. Yes. We had one meeting with the whole group.

The CHAIRMAN. Where did you meet?

Mr. CASSEL. In Mr. Allen's office.

The CHAIRMAN. Who was present?

Mr. CASSEL. Mr. Allen, Mr. Butcher, Mr. Michaux, at that time Mr. Paul Stone, who was to be the original builder, I was there, and——

The CHAIRMAN. Tell us exactly what was said and what happened at that meeting?

Mr. CASSEL. They discussed the thing in preliminary form at that meeting, but dismissed the first meeting rather promptly because I found out afterwards it was decided to cut down this large unwieldy body and the body would consist of five persons.

The CHAIRMAN. Who were they?

Mr. CASSEL. Mr. George E. Allen, Mr. Harry Butcher, Elder Michaux, Paul D. Stone, a builder of Washington, and I.

The CHAIRMAN. That was five people?

Mr. CASSEL. Five people.

The CHAIRMAN. You were to each get 20 percent?

Mr. CASSEL. Each of us was to get 20 percent in the setup.

The CHAIRMAN. Did you five people become the sponsors?

Mr. CASSEL. We became the sponsors on the first application.

The CHAIRMAN. I hand you the application filed on July 15, 1942, and ask you if the names on there are the same five names that you just mentioned.

Mr. SIMON. Mr. Cassel, can you fix the date of this meeting in Mr. Allen's office?

Mr. CASSEL. I cannot fix the exact date, sir, because it was along in the middle of 1940, I think, when I got this call from Mr. McIntyre's office. We went on for about a year, back and forth, about what would be done, who would be in it.

Mr. SIMON. You said you met in Mr. Allen's office. Where was his office?

Mr. CASSEL. His office was at the Home Insurance office on K Street.

Mr. SIMON. What was his position there?

Mr. CASSEL. I understand Mr. Allen was vice president of Home Insurance Co.

Mr. SIMON. What was Mr. Butcher's position there?

Mr. CASSEL. Mr. Butcher had no position there. Mr. Butcher was the CBS representative at the White House.

Mr. SIMON. He was with Columbia Broadcasting System?

Mr. CASSEL. Yes, sir.

The CHAIRMAN. See if the five names on the original application of the mortgage commitment—just read the five names.

Mr. CASSEL. L. S. Michaux, that is correct. George E. Allen, correct. Harry C. Butcher, correct. Albert I. Cassel, correct. Frank A. O'Hare, correct.

The CHAIRMAN. He became the builder?

Mr. CASSEL. Yes, sir.

The CHAIRMAN. Now read what each of you were supposed to put up or did put up, if they did. I don't know whether they did or not.

Mr. SIMON. On page 2.

The CHAIRMAN. After your name there, how much in land and how much in cash? The same thing you just read from the names.

Mr. SIMON. On the top of page 2, Mr. Cassel.

Mr. CASSEL. L. S. Michaux, \$7,000.

The CHAIRMAN. No; how much for land.

Mr. CASSEL. \$25,000.

The CHAIRMAN. How much cash?

Mr. CASSEL. \$7,000. George E. Allen, land, \$25,000; cash, \$7,000.

Harry C. Butcher, \$25,000; cash, 7,000.

Albert I. Cassel, \$25,000—land, \$25,000; cash, \$7,000.

Frank A. O'Hare, land, \$25,000; cash, \$7,000.

The CHAIRMAN. Did any of the five persons whose names you read that put up \$25,000 up for land and \$7,000; did they ever put up the money?

Mr. CASSEL. No, sir.

The CHAIRMAN. Did they ever secure any interest in the project?

Mr. CASSEL. Yes. They secured an interest.

The CHAIRMAN. Each of them?

Mr. CASSEL. I want to correct one thing. O'Hare did put up money for land.

The CHAIRMAN. O'Hare did?

Mr. CASSEL. Yes, sir.

The CHAIRMAN. But the others did not put up any money for land or cash?

Mr. CASSEL. No.

The CHAIRMAN. But they did get the 20 percent stock interest in the corporation?

Mr. CASSEL. They did.

The CHAIRMAN. However, I think that it must be said at this time that neither Mr. Allen nor Mr. Butcher—they later returned their 20 percent stock?

Mr. CASSEL. They returned the 20 percent stock and never got anything out of it.

The CHAIRMAN. They never got any money out of it?

Mr. CASSEL. No, sir.

The CHAIRMAN. I just want to say at this point, in no way to criticize any of the five people involved, meaning Mr. Allen or Mr. Butcher or you, Mr. Cassel, or Mr. O'Hare or Mr. Michaux—I just want to show the pattern of the irresponsibility of the administration of FHA, at least in those days. Here are 5 men who say that they had land of

\$25,000 value and \$7,000 each in cash and outside of 1 of them they never put up any land. They are just round figures. That just shows the pattern and the irresponsibility and nonbusinesslike management of the FHA in respect to section 608's.

Mr. CASSEL. May I say a word with reference to my own contribution up to that point?

The CHAIRMAN. You may.

Mr. CASSEL. I optioned that land in 1938. I held it. I paid out of my own pocket for the production of drawings and I paid all of the promotional expenses up until that time.

The CHAIRMAN. I appreciate that. You had had considerable money into it. I said I am not criticizing any of the five names. I am just showing the general pattern of how it just seemed as though all you had to do was fill in some names and put down some amounts. We have found that as a general pattern all over the United States with respect to these section 608's.

Now tell us what happened from that time on. You have testified, of course, that Mr. Allen and Mr. Butcher did get 20 percent of the stock, but they later returned it to the church.

Mr. CASSEL. Yes, sir.

The CHAIRMAN. They never received any money out of it?

Mr. CASSEL. They never received any money.

The CHAIRMAN. However, the project went bankrupt; didn't it?

Mr. CASSEL. Yes, sir. The building, the actual building of the project started—

The CHAIRMAN. In this particular application the whole thing went bankrupt.

Mr. CASSEL. Yes, sir.

Mr. SIMON. You got a mortgage for \$2,478,000?

Mr. CASSEL. Yes, sir.

Mr. SIMON. And Frank O'Hare's construction company started construction?

Mr. CASSEL. Yes, sir.

Mr. SIMON. And after they were part way through it was that company that went bankrupt?

Mr. CASSEL. That is the company that went bankrupt.

Mr. SIMON. When they went bankrupt, they owed subcontractors?

Mr. CASSEL. They owed subcontractors a total of about \$790,000.

Mr. SIMON. Then in 1944 you filed another application?

Mr. CASSEL. In 1944, this contractors' subcommittee, headed by Henry J. Knott—

Mr. SIMON. Henry J. Knott—

Mr. CASSEL. Yes.

Mr. SIMON. Where did Mr. Knott come into the picture?

Mr. CASSEL. After Mr. O'Hare's Kenilworth Co. failed for the first time Mr. Knott came into the picture to my knowledge. Mr. Knott presented himself, and said that he held as collateral for \$115,000 loan which he had made to Frank A. O'Hare, all of the stock of the Kenilworth Co., and that in any reorganization of this situation, looking toward completing it, well he wanted to protect his rights. He hired Mr. George Shay, an attorney, to negotiate with the Federal Housing Administration, and Mr. Knott was given the commitment to reorganize this thing.

The CHAIRMAN. And to finish the project?

Mr. CASSEL. Yes, sir. Mr. Knott's group secured an additional loan of about \$400,000, which Elder Michaux and I had not been able to secure.

Mr. SIMON. In the meantime, as I understand it, Mr. Butcher's stock and Mr. Allen's stock and Mr. O'Hare's stock were turned over to the church?

Mr. CASSEL. Well, not in that way. Not quite in that way. It didn't come about at that time. It came about after this reorganization was complete, and we were about to close the situation; Knott and his group had been in control and they were trying to make some agreement with Elder Michaux and I for us to take a very minor part in the situation.

Something happened, and as a result of that, Knott offered to sell his interest and the benefit of all he had done to put the thing together, to us for \$100,000.

Mr. SIMON. What was he going to sell you for that \$100,000?

Mr. CASSEL. He was selling the commitment which FHA had given him to complete it.

The CHAIRMAN. Do you mean to tell me he was selling a commitment for \$100,000?

Mr. CASSEL. I would say that was the prime situation in it because he had the terms of the commitment set up in a letter to him from Mr. Powell, which terms were favorable.

The CHAIRMAN. He charged you and Mr. Michaux \$100,000?

Mr. CASSEL. For that and his services in putting the deal together, as a part of those services, sir, included getting all of the subcontractors who were stuck in the situation, along with me, to agree to finish the job for their original figures, and to take in return for the money they already had in the job, a certain class of stock which would be redeemed if and when the project, the finished project could pay them off.

Mr. SIMON. Mr. Cassel, is this what happened; the first application was filed by Mayfair Gardens?

Mr. CASSEL. Yes, sir.

Mr. SIMON. It went broke?

The CHAIRMAN. Who was the president of that? Was that Mr. Michaux?

Mr. CASSEL. Yes.

The CHAIRMAN. Lightfoot Michaux?

Mr. CASSEL. Yes, sir. That wasn't done until we made this agreement with Knott.

Mr. SIMON. Then the second corporation was Mayfair Mansions?

Mr. CASSEL. That is right.

Mr. SIMON. That is the company in which Knott filed the application?

Mr. CASSEL. Yes, sir.

Mr. SIMON. The application shows it was filed by Mayfair Mansions, care of Henry J. Knott?

Mr. CASSEL. That is right, sir.

The CHAIRMAN. That gave him then the commitment?

Mr. CASSEL. Yes, sir. He had gotten the commitment before then in writing.

Mr. SIMON. Then FHA issued a commitment for \$2,815,000.

Mr. CASSEL. Backed up by RFC.

Mr. SIMON. Backed up by RFC?

The CHAIRMAN. What did you mean by that? Did RFC loan money on this?

Mr. CASSEL. FHA loan guaranteed it, sir, but the money was to be advanced by RFC.

The CHAIRMAN. They were to be the mortgagees?

Mr. CASSEL. Yes.

Mr. SIMON. How did you get to RFC?

Mr. CASSEL. We had tried—when I say “we” this time I mean Elder and I—had tried very hard to get RFC to raise that mortgage from 2.4 to 2.8, but for us they would not do it. When Mr. Knott and Shay got working on it—

The CHAIRMAN. Mr. Shay being the attorney for Mr. Knott?

Mr. CASSEL. That is right, they did it. When this thing was handed back to Michaux and me as a package, as a result of Elder Michaux having raised among his churches the \$100,000, or raised somewhere \$100,000, and paid to Knott, then it was handed back to Elder Michaux and I; Mr. Allen being away and Mr. Butcher being in Europe with Mr. Eisenhower.

Mr. SIMON. Is this what happened? The church raised \$100,000, which went to Mr. Knott?

Mr. CASSEL. Yes.

Mr. SIMON. And the church got 60 percent of the stock, you kept your 20 percent, the Elder kept his 20 percent, and FHA issued the mortgage commitment for \$2,815,000, which RFC was to advance, and Knott gave you the commitment and the subcontractors who had \$709,000 owing to them from the first project, agreed to take preferred stock from the second company for the \$709,000?

Mr. CASSEL. That is exactly what happened except for the fact that in addition to that, Elder Michaux and I agreed to pay the church back its \$100,000.

Mr. SIMON. You agreed to pay it back?

The CHAIRMAN. You did later pay it back?

Mr. CASSEL. We did pay back \$50,000.

The CHAIRMAN. Who brought RFC into the picture?

Mr. CASSEL. So far as we know, RFC was brought in by Mr. Knott and Mr. Shay. We couldn't get to first base with them on increasing the mortgage.

The CHAIRMAN. Who helped to bring them in?

Mr. CASSEL. I don't know.

Mr. SIMON. Now, Mr. Cassel, when the project was just about finished, did anybody ask FHA to increase the mortgage by \$709,000, to redeem the preferred stock?

Mr. CASSEL. Yes, sir.

Mr. SIMON. Whose idea was that?

Mr. CASSEL. Well, it was presented to us as a fact that was practically accomplished.

Mr. SIMON. By whom?

Mr. CASSEL. It was first broached to us by Mr. Bornstein, who was the chairman of the executive committee. We had an executive committee of the subcontractors which was made up of Mr. Bornstein, who had perhaps the largest amount of subcontract money sunk in the thing, some \$200,000, and E. P. Norman, the concrete subcontractor and I were the executive committee.

Mr. Bornstein brought that suggestion up and said it could be done and could be worked out.

Mr. SIMON. Did he work it out?

Mr. CASSEL. Well, we didn't do much on that. That application for that increase was filed and practically handed to the elder and I as a package.

Mr. SIMON. By you?

Mr. CASSEL. By FHA and Bornstein.

Mr. SIMON. They were going to increase the mortgage by \$709,000 in order that you could take that money and redeem the preferred stock that was issued to the subcontractors who lost money on the first job?

Mr. CASSEL. Whose money was held up on the second job and who would have to wait some 17 years to get it out.

Mr. SIMON. That extra \$709,000 was not needed to finish the job; was it?

Mr. CASSEL. No. That wasn't needed. It was needed to pay those debt which were incurred in that first failure.

Mr. SIMON. But the people had already agreed to take preferred stock for it?

Mr. CASSEL. Yes, sir; they did.

Mr. SIMON. The first commitment that was issued on Mayfair Mansions was in May of 1944, and the second commitment, which was \$709,000 higher, was issued in October of 1946. Did you go down to FHA to get this increased commitment?

Mr. CASSEL. No; I didn't.

Mr. SIMON. How did you get it?

Mr. CASSEL. I was told of the existence of the commitment by this group of Mr. Bornstein and his setup.

Mr. SIMON. After he told you it was ready, didn't you have to pick up the papers?

Mr. CASSEL. I had to pick up the papers; yes.

Mr. SIMON. What happened when you went to pick up the papers?

Mr. CASSEL. I picked up the papers and we had to take the necessary corporation action in our setup to approve such an increase, and there didn't anything happen that was untoward until such a time as the thing was ready to settle along in December of 1946.

The CHAIRMAN. Where did you go to settle?

Mr. CASSEL. The job was to be settled, this increase was to be settled by disbursements made at the title company of Richmond, their Washington office, but in order to be in position to do that, we had to get the money from the Trust Co. of New Jersey. It has not been explained so far how the Trust Co. of New Jersey got into it because at that time we were half way through the completion of the job, the Trust Co. of New Jersey bought the mortgage from RFC, and they finished the job and we did have an excellent group of tenants and a large—

The CHAIRMAN. You had to get this \$709,000 then from the Trust Co. of New Jersey?

Mr. CASSEL. Yes, sir. They were the people who agreed to put the money up.

Mr. SIMON. Tell us, how did you go about doing that and what happened?

Mr. CASSEL. We thought everything was settled. I went, of course, to the office of Mr. Powell to get the authorization.

The CHAIRMAN. Whose office?

Mr. CASSEL. Mr. Powell's office.

The CHAIRMAN. Clyde L. Powell's office?

Mr. CASSEL. Yes.

The CHAIRMAN. Where was that?

Mr. CASSEL. The FHA Building.

The CHAIRMAN. Tell us what happened?

Mr. CASSELL. I went to get the authorization to get the \$709,000 from the Trust Company of New Jersey.

Mr. SIMON. Was that in December of 1946?

Mr. CASSEL. It was along that time, December of 1946, to get this money down to the title company, Richmond Title Co., here in Washington, and at that time Mr. Powell told me the amount of work he had done on the thing.

The CHAIRMAN. That he had done on it?

Mr. CASSEL. Yes; the amount of work he had done on it and how he helped the project to survive from the very beginning and before this thing would be finally approved by him we would have to give him \$10,000.

The CHAIRMAN. You would have to give him \$10,000?

Mr. CASSEL. Yes, sir.

The CHAIRMAN. Did you give him \$10,000?

Mr. CASSEL. Not at that time, sir.

The CHAIRMAN. When did you give it to him?

Mr. CASSEL. I discussed his proposal in detail with the elder.

The CHAIRMAN. You discussed it with Lightfoot Michaux?

Mr. CASSEL. Yes.

The CHAIRMAN. You discussed it with him in detail?

Mr. CASSELL. Yes, sir. His answer, after due consideration, was this: that that was the way things were done.

The CHAIRMAN. That was the way things were done?

Mr. CASSEL. Things were done, that he was a preacher.

The CHAIRMAN. He was a preacher?

Mr. CASSEL. And he could not have anything to do with passing the money, but that is the way things were done.

The CHAIRMAN. I see. Then what happened?

Mr. CASSEL. Thereafter I went back to see Mr. Powell.

The CHAIRMAN. Back to see Mr. Powell; yes.

Mr. CASSEL. Mr. Powell wanted me to draw a check to myself for services, cash the check, and to give that money to him in cash. That I would not do.

The CHAIRMAN. What did you do?

Mr. CASSEL. What we finally did, was to take out of Mayfair Mansions' accumulated funds, which had been accumulated or been accumulating since July 1945—

Mr. SIMON. You mean rent money?

Mr. CASSEL. Yes; rent money and anything else we had, rent money, advance deposit, things of that type, anything else that was left over, took out \$10,000 in cash and gave it to Mr. Powell.

The CHAIRMAN. Did you give it to him at one time?

Mr. CASSELL. No, sir; about three times as we had the money.

The CHAIRMAN. You gave him a total of \$10,000?

Mr. CASSEL. Yes, sir.

The CHAIRMAN. Did he ever pay it back?

Mr. CASSEL. No, sir.

The CHAIRMAN. Was he supposed to pay it back?

Mr. CASSEL. No, sir. He wasn't supposed to pay it back. He said he wanted it for his services.

The CHAIRMAN. You are certain you discussed this with Lightfoot Michaux?

Mr. CASSEL. I certainly am.

The CHAIRMAN. He agreed to it?

Mr. CASSEL. He said he couldn't pass the money. That is the way things were done and I thought about it, and I also took this into consideration.

The CHAIRMAN. He had previously charged you \$12,000?

Mr. CASSEL. That is what I was about to say. I went through the same process there; I had to pay him \$12,000.

The CHAIRMAN. You paid him \$12,500?

Mr. CASSEL. I did pay him; yes, sir.

The CHAIRMAN. Did Mr. Powell ever ask you for any money or loans after that?

Mr. CASSEL. He made a request for one loan after that; in the early part, about January 1948.

The CHAIRMAN. How much did he ask for this time?

Mr. CASSEL. Mr. Powell called me and said he had to have \$2,500.

The CHAIRMAN. What did you do?

Mr. CASSEL. I went to see him about it. Mr. Powell told me that he had to have it, that he had gotten himself into a situation on some gambling debts and people were going to kill him.

The CHAIRMAN. People were going to kill him?

Mr. CASSEL. That is what he told me unless he got the money, and he told me then if I would help out, that he would quit that business.

The CHAIRMAN. He would quit what business?

Mr. CASSEL. Gambling business.

The CHAIRMAN. "Just give me one more chance and I will quit." That is what he said?

Mr. CASSEL. That is right.

Mr. SIMON. You loaned him the \$2,500?

Mr. CASSEL. I loaned him the \$2,500 after going through the same procedure that I did before.

The CHAIRMAN. Cash—

Mr. CASSEL. Cash and three different lots because we didn't have any more.

The CHAIRMAN. Did he repay the loan?

Mr. CASSEL. Yes. He repaid that loan by about June of that year.

Mr. SIMON. The \$10,000 you gave him in cash earlier, that wasn't a loan and was not repaid?

Mr. CASSEL. No, sir.

Mr. SIMON. Mr. Cassel, you had some preferred stock for your architectural fees, didn't you?

Mr. CASSEL. Yes, sir.

Mr. SIMON. Out of this \$709,000 you got your architectural fees paid for?

Mr. CASSEL. I got the balance of my architectural fees.

Mr. SIMON. Will you tell us how that was disbursed?

Mr. CASSEL. I had carried this thing promotionally during this period that it was in jeopardy and stoppage, and so forth. I had all my expenses to pay. The Munsey Trust Co. carried my payrolls and advanced me money to keep going to get this thing through. I therefore made an assignment to Munsey Trust Co. for anything I might get out of the job. I got out of it \$30,000, which was distributed between these people, my consulting engineer, my landscape engineer, Pere Ghent, the Munsey Trust Co. I think got about \$10,500, Elder Michaux got the balance of his \$12,500 and they gave me \$681 out of \$30,000.

Mr. SIMON. You say Elder Michaux got the balance of \$12,500 out of Munsey Trust. Where did he get the first part of his \$12,500?

Mr. CASSEL. I paid that out of the first money which came to me. My architectural fee was listed as \$118,000 but I never got anything like that. I got less than half of that. If you will look through the records you will see that FHA itself took \$51,000 from the \$118,000 as my contribution to the job that they had started. In addition to that \$51,000, they took \$42,518, which I understand was handed over to Frank A. O'Hare, as a cushion for the construction on the job. I got the difference in this way: I got—I had O'Hare bring me a check. I said I had to pay Michaux, he insisted on having the money now and I am not going to hand the money out in cash. You said you are going to bring me \$25,000; which is all I am going to get out of this money for all I have done, for all the service I have done on it at this time.

O'Hare brought me a cashier's check from Riggs National Bank for about \$5,600 for the elder, and the balance of nineteen-some-thousand dollars for myself.

Mr. SIMON. Do you have a photostatic copy of that cashier's check?

Mr. CASSEL. I do.

Mr. SIMON. May we see it, please?

The CHAIRMAN. This is the check you paid to Michaux?

Mr. CASSEL. The first payment.

The CHAIRMAN. The first payment to Michaux.

Mr. SIMON. That is about \$5,600?

Mr. CASSEL. Something like that.

Mr. SIMON. You say the balance, which would be around \$77,000, or \$68,000, was paid to him by the Munsey Trust Co. out of the money you got from the preferred stock; is that right?

Mr. CASSEL. That is right. With this slight exception: I think between this payment, this \$5,600 payment.

The CHAIRMAN. This is a check dated October 3, 1942, at the Riggs National Bank, made to the order of Lightfoot S. Michaux, \$5,681. It is a cashier's check. That is the first payment you made to him?

Mr. CASSEL. That is the first payment.

The CHAIRMAN. On the \$12,500 you were to pay him for influence?

Mr. CASSEL. Yes, sir.

The CHAIRMAN. You later paid the balance through the Munsey Trust?

Mr. CASSEL. Between that and the last payment, I passed over, I guess, the difference—I believe the last payment to Munsey Trust Co. would be shown on their assignment. I think that was around \$6,000, but I had between these 2 payments given him the other few hundred dollars which made up \$12,500.

Mr. SIMON. The last payment from the Munsey Trust Co. was probably in the early part of 1947; is that right?

Mr. CASSEL. It was then this disbursement was made on this \$709,000.

Mr. SIMON. You got the \$709,000 December 1946?

Mr. CASSEL. Disbursements were in January 1947.

Mr. SIMON. So that is when the elder got the last of his \$12,500?

Mr. CASSEL. Yes, sir.

Mr. SIMON. After you got through building the Mansions, did you build a shopping center on the additional land?

Mr. CASSEL. We built a temporary shopping center on the additional land.

Mr. SIMON. Who financed that?

Mr. CASSEL. That was financed by—in this way: When this Mayfair Gardens was first started in 1942, it had not only money which I had put in it and the money O'Hare had put in it, but in order to get started it needed an additional \$110,000. Defense Homes loaned that \$110,000, as a second trust on Mayfair Gardens and as blanket first trust on the first trust of Mayfair Extension.

Mr. SIMON. The vacant land was owned by Mayfair Extension?

Mr. CASSEL. Yes; that was the other half of the original track.

Mr. SIMON. Owned by the same stockholders?

Mr. CASSEL. Yes; in the same amount.

Mr. SIMON. Defense Homes, a part of RFC, loaned you \$110,000 as the second mortgage on the apartment ground and first mortgage on the vacant land?

Mr. CASSEL. That is right.

Mr. SIMON. You used that money to build this first shopping center?

Mr. CASSEL. No, sir. That money was advanced in October, I believe, or September 1942, and every penny of that money went into the building of Mayfair Gardens.

Mr. SIMON. That is the company that went bankrupt?

Mr. CASSEL. Yes.

Mr. SIMON. When you needed to have some more money for the shopping center you went back to RFC again?

Mr. CASSEL. We went back to them twice. First we got the original loan of \$110,000 as to which no payments as the principal and interest were due until maturity 7 years after its drawn date. We had that increased from \$140,000, to which it had accrued at that time to \$193,000.

Mr. SIMON. The \$140,000 was the 110 plus interest?

Mr. CASSEL. Plus interest which had accrued to that date.

Mr. SIMON. You got a loan for \$190,000?

Mr. CASSEL. \$193,000. We started off to build this temporary shopping center which cost in excess of \$200,000, with about \$51,000.

Mr. SIMON. Did you go back to RFC for more?

Mr. CASSEL. We struggled to get through this thing and did finally, and by the time we got through, in June 1949, I am sure that is right, June 1949 or July, RFC increased its loan to \$325,000 and gave us the difference between our accrued mortgage and interest and the \$325,000 to pay our debts with on this temporary shopping center.

Mr. SIMON. Did anybody help you get that loan from the RFC?

Mr. CASSEL. Yes; we were helped to get the loan from RFC.

Mr. SIMON. Who helped you?

Mr. CASSEL. We were helped by people at the White House.

Mr. SIMON. Who at the White House?

Mr. CASSEL. They were interested in the whole thing there.

Mr. SIMON. Who at the White House helped you?

Mr. CASSEL. So far as I know, I think Mr. Dawson helped us, with Mr. Hise.

The CHAIRMAN. What is his first name?

Mr. CASSEL. Donald Dawson, I believe.

The CHAIRMAN. Who was Mr. Hise?

Mr. CASSEL. Harvey Hise was Chairman of the RFC.

Mr. SIMON. You got the \$325,000 and finished building the shopping center?

Mr. CASSEL. We had actually finished by borrowing what we had to pay off.

Mr. SIMON. You used this money to pay it off?

Mr. CASSEL. That is right.

Mr. SIMON. After you got the shopping center built, you still owned 20 percent of the Mayfair Mansions and 20 percent of the Extensions?

Mr. CASSEL. That is right.

Mr. SIMON. And the elder owned 20 percent of each company?

Mr. CASSEL. Yes, sir.

Mr. SIMON. And the church owned 60 percent; is that right?

Mr. CASSEL. That is essentially right. There may be 20 percent and a third between the elder and myself.

Mr. SIMON. This \$100,000 that the church put up to buy Mr. Knott's commitment; did you ever pay that back?

Mr. CASSEL. We paid back to my knowledge about \$48,000 of it.

Mr. SIMON. Up to what time did you pay it back?

Mr. CASSEL. I think we paid that back within the first year after it was loaned. I got back \$20,000 from the insurance company of Detroit.

Mr. SIMON. That was on the bond?

Mr. CASSEL. Yes; \$20,000 that had been put up, and we got back \$28,000 plus the accrued interest in bonds from the Trust Co. of New Jersey, which had been up there as sort of a security fund. We turned those moneys back to the church.

Mr. SIMON. Did the church ever get the other \$51,000 paid back?

Mr. CASSEL. I did not know.

Mr. SIMON. After a while the Mansions needed a little money; didn't they?

Mr. CASSEL. Yes, sir.

Mr. SIMON. What did you do to raise the money?

Mr. CASSEL. Well, there is no question about that, the Mansions had helped the Extension and the Extension helped Mansion by picking up this \$140,000 debt. We needed money seriously, not only when Mansions needed it, but all through the construction of Mayfair Extension temporary shopping center. We had to borrow money. We borrowed money from the National Savings & Trust. I borrowed money, with Michaux speaking for me I borrowed money from the Crown Savings Bank in Newport News.

Mr. SIMON. What do you mean by Michaux speaking for you?

Mr. CASSEL. I mean this: That we discussed, and when I say "we," I mean the elder and I discussed, the need for money. The elder suggested that he could help me borrow better than he could borrow on himself. He didn't want to borrow on himself.

Mr. SIMON. Why didn't he want to borrow himself?

Mr. CASSEL. Well, he didn't want to borrow. He said he would lose face.

Mr. SIMON. He would lose face?

Mr. CASSEL. Yes.

Mr. SIMON. This was going to be money for the corporation?

Mr. CASSEL. That is right.

Mr. SIMON. Why didn't the corporation borrow the money and he and you guarantee it?

Mr. CASSEL. I do not think the corporation had any assets to borrow. We had to put up something for it. The corporation was already in great debt, so what I put up for it was my own stock in Mayfair Mansions and Mayfair Extensions.

Mr. SIMON. You borrowed this money from the bank in Norfolk?

Mr. CASSEL. I borrowed money from the bank at Norfolk, I borrowed money from Mr. Arthur Chaite. We paid them both back.

Mr. SIMON. How much did you borrow from Mr. Chaite?

Mr. CASSEL. At that particular time, \$33,500, which was paid back.

Mr. SIMON. From Mr. Chaite?

Mr. CASSEL. Yes.

Mr. SIMON. Was that the first loan from him?

Mr. CASSEL. It began as a \$10,000 loan.

Mr. SIMON. You borrowed \$10,000 from Mr. Chaite first?

Mr. CASSEL. By the time we had finished the shopping center we owed Mr. Chaite \$33,500, which was paid back out of residue of this \$325,000 loan, paid by RFC.

Mr. SIMON. Did you ever borrow any more money from Mr. Chaite?

Mr. CASSEL. Yes. I borrowed money from Mr. Chaite, I would say, very late in 1949 or 1950.

Mr. SIMON. How much was that?

Mr. CASSEL. When this shopping center started we still did not have any working capital.

Mr. SIMON. How much did you borrow from Mr. Chaite?

Mr. CASSEL. I think the face value of my note was \$40,000.

Mr. SIMON. \$40,000?

Mr. CASSEL. Yes.

Mr. SIMON. In 1949 or 1950?

Mr. CASSEL. Yes.

Mr. SIMON. What is Mr. Chaite's business?

Mr. CASSEL. Mr. Chaite is an attorney.

Mr. SIMON. Is he in the lending business?

Mr. CASSEL. Not that I know of. He loaned me money.

Mr. SIMON. How did you happen to go to him to borrow the \$40,000?

Mr. CASSEL. I went to Mr. Chaite to borrow the \$40,000 because when we were building the shopping center and needed money, Mr. Elder Michaux first pointed to Mr. Chaite as a possible source.

The CHAIRMAN. Michaux told you that you should borrow the money from Chaite?

Mr. CASSEL. He pointed to him as a source from which we could get this additional \$10,000.

The CHAIRMAN. You later borrowed \$40,000?

Mr. CASSEL. I later increased to \$10,000, \$23,500, that was paid off out of the residue, then I borrowed \$40,000.

The CHAIRMAN. Did you put up your stock in the two corporations?

Mr. CASSEL. I put up my stock and I also put up my own farm.

Mr. SIMON. You put up your farm as collateral?

Mr. CASSEL. Yes.

The CHAIRMAN. For this \$40,000 loan?

Mr. CASSEL. Yes.

The CHAIRMAN. How much were you paying Mr. Chaite for the \$40,000 loan?

Mr. CASSEL. I think the interest on that ran somewhere between 4 and 6 percent. I believe the bonus was \$5,000.

Mr. SIMON. You paid him a \$5,000 bonus?

Mr. CASSEL. I think so.

Mr. SIMON. How was the bonus made?

Mr. CASSEL. The bonus was not paid by me. It was taken out of the money.

Mr. SIMON. You borrowed \$40,000 and got \$35,000?

Mr. CASSEL. That is right, thereabouts.

Mr. SIMON. Whose money was Mr. Chaite loaning to you?

Mr. CASSEL. I don't know, I was glad to get it. I didn't ask him.

Mr. SIMON. Do you think it was his own money?

Mr. CASSEL. I don't know.

Mr. SIMON. Do you know today whose money he was loaning to you?

Mr. CASSEL. Sir?

Mr. SIMON. Do you know today whose money he was loaning to you?

Mr. CASSEL. I do not know.

Mr. SIMON. You still don't know whose money it was?

Mr. CASSEL. I don't know.

Mr. SIMON. What happened when that note came due, did you pay it?

Mr. CASSEL. I couldn't pay the note. The note stayed unpaid for some time. It got to be very embarrassing.

Mr. SIMON. He held your farm as collateral?

Mr. CASSEL. That is right.

Mr. SIMON. As well as your Mayfair Mansion stock?

Mr. CASSEL. That is right.

Mr. SIMON. What did you do then?

Mr. CASSEL. We didn't do anything except make many efforts, with Mr. Chaite and other sources, to attempt to refinance the whole Mayfair Mansion and Mayfair Extension holdings in an effort to clear up everybody's debt, including my own. I had been in the thing from the beginning and had socked every nickel I had back in the thing. In the meantime I had done the contract drawings for the second section at the expense of many thousands of dollars to me and I still had not been paid for it. I still owed \$12,000 for engineering alone on that section.

The CHAIRMAN. You did not lose your farm, did you?

Mr. CASSEL. No. I did not lose my farm. I did not lose it, no, sir. I am glad of that.

The CHAIRMAN. Was that your concern, that you might lose the farm?

Mr. CASSEL. That was my great concern because I have had the farm since 1930.

The CHAIRMAN. How big a farm is it?

Mr. CASSEL. Three hundred and sixty-four acres, sir.

The CHAIRMAN. Where is it located?

Mr. CASSEL. It is located right on the Chesapeake Bay. We have about 3,200 foot frontage.

The CHAIRMAN. How did you pay off this note?

Mr. CASSEL. The note was paid off in the final, I will say the last refinancing of Mayfair Mansions, where I gave up my stock, in Mayfair Mansions, for what I considered less than 5 cents on a dollar.

The CHAIRMAN. Why did you sell your stock?

Mr. CASSEL. I did not want to lose my farm. Let me tell you, sir, the farm as a farm is not worth much, but the land is worth money.

Mr. SIMON. You sold your stock to pay this note?

Mr. CASSEL. Yes, sir.

Mr. SIMON. And save your farm; is that right?

Mr. CASSEL. I couldn't get it loose unless I did something.

Mr. SIMON. When you did that, when you sold your stock to save the farm because of this money, that you owed to Chaite, what would you have thought if you had known that the money that Chaite loaned you was really the church's money that Michaux had given him to loan you?

Mr. CASSEL. I never suspected that. The elder didn't say that. The elder said that he was going to great expense to borrow the money from Chaite.

The CHAIRMAN. The facts are, and we will have testimony a little later that it was Michaux's money all the time.

Mr. SIMON. Did you ever know that before?

Mr. CASSEL. Not until this minute.

The CHAIRMAN. Michaux and you were partners, were you not? He had 20 percent, you 20 percent, and the church 60?

Mr. CASSEL. We were associated but I did not know that. The only thing I knew in that association that worried me was when it looked as though an agreement might be made where I could get my farm loose from this situation, Michaux himself called attention to Mr. Chaite.

The CHAIRMAN. You own no stock in this project at the moment?

Mr. CASSEL. I do not own any stock.

The CHAIRMAN. Mr. Michaux owns 20 percent, the records will show, and the church owns 80 percent. They have it all.

Mr. CASSEL. I suppose that is right. I know I am out.

The CHAIRMAN. That is the testimony that we have had in executive session. That is the testimony we will have here shortly in public session.

Mr. CASSEL. Sir, may I ask a question, you tell me that money was actually Mr. Elder's money?

The CHAIRMAN. It was Elder's money or Michaux's money or the church's money all the time. He so testified and will testify later today. And so will Mr. Chaite:

You did not know that?

Mr. CASSEL. I not only didn't know it, I never even suspected it.

Mr. SIMON. At any rate, you got squeezed out of your stock because you were afraid that if the note were not paid you would lose your farm; is that right?

Mr. CASSEL. Now it looks like worse than squeezed.

Mr. SIMON. What do you mean by that?

Mr. CASSEL. Well, I was cut down to that amount of money by this, I see now, as a maneuver. We were all saying we were anxious to pay every debt of Mayfair Mansions and Mayfair Extensions, and there was an offer made to purchase Mayfair Mansions at such a figure as would pay all of its debts.

The CHAIRMAN. Was that something like \$45,000?

Mr. CASSEL. Yes, and would leave a little bit of money, all that would be left out of that for me was \$35,000 and I agreed that if all of its debts could be paid and all its creditors wiped off in spite of the value of the thing I would take \$35,000 to get a fresh start and pay over again. The elder told me to sign it first and he would take the thing to New York to be approved by his group. I did sign in that situation and instead of it being approved, it was thereafter used as a club for me, with the idea that I had agreed to sell for \$35,000. I didn't get \$35,000.

Mr. SIMON. You never knew that it was the elder's money that you were afraid you couldn't pay back?

Mr. CASSEL. I never even suspected it because Mr. Chaite was the person that had arranged all this.

The CHAIRMAN. Mr. Chaite is your attorney?

Mr. CASSEL. Mr. Chaite was not my attorney.

The CHAIRMAN. He was the attorney for—

Mr. CASSEL. Apparently for Mr. Michaux and for the church.

Mr. SIMON. He was also a former FHA attorney, wasn't he?

Mr. CASSEL. Yes. At the time he closed the first Mayfair Gardens setup Mr. Chaite was the closing attorney in that particular deal.

Mr. SIMON. Is that how you and the elder first got to know him?

Mr. CASSEL. That is how I first got to know Mr. Chaite and I think Mr. Michaux, too. I don't know about that.

The CHAIRMAN. Thank you very much.

Mr. ANDERSON. May we have the check back?

The CHAIRMAN. Our next witness will be Mr. Elder Lightfoot Michaux.

Elder, will you be sworn?

Mr. MICHAUX. I affirm.

The CHAIRMAN. You affirm. Do you solemnly swear—

Mr. MICHAUX. I solemnly affirm.

The CHAIRMAN. You solemnly affirm the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

#### TESTIMONY OF ELDER LIGHTFOOT MICHAUX, MAYFAIR MANSIONS, WASHINGTON, D. C.

Mr. MICHAUX. Yes, sir.

The CHAIRMAN. Thank you, sir. Please be seated and give your name and address to the reporter.

Mr. MICHAUX. My name is Elder Lightfoot Solomon Michaux, address, 1712 R Street NW., Washington, D. C.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Michaux, I show you the application filed with the Federal Housing Administration for a section 608 mortgage on Mayfair Gardens, and ask you if that bears your signature?

Mr. MACHAUX. It does, sir.

Mr. SIMON. You signed it?

Mr. MICHAUX. Yes, sir.

Mr. SIMON. You were the president of Mayfair Gardens, were you?

Mr. MICHAUX. Yes, sir.

Mr. SIMON. If you will look on the second page, it says that the sponsors of the corporation are five people: Yourself, Mr. Cassel, Mr. Allen, Mr. Butcher, and a Mr. O'Hare, is it?

Mr. MICHAUX. That is right.

Mr. SIMON. Does it also say that each of them is to put up \$25,000 in land and \$7,000 in cash?

Mr. MICHAUX. Yes, sir.

Mr. SIMON. Was it ever intended that Mr. Allen or Mr. Butcher were to put up anything in land or cash?

Mr. MICHAUX. Well, Mr. Cassel, in stating that Mr. O'Hare—

Mr. SIMON. I am talking about Mr.—

Mr. MICHAUX. I am coming to that. I have the agreement here concerning the \$25,000.

Mr. SIMON. Was it ever intended that Allen or Butcher were to put up anything in land or money?

Mr. MICHAUX. Mr. Stone, Paul Stone, who put up the \$150,000—

Mr. SIMON. I understand. My question is whether Butcher or Allen were to put up anything.

Mr. MICHAUX. They were to put up. They became responsible for \$25,000.

Mr. SIMON. Was it ever intended that Allen or Butcher were to put up \$25,000 in land or \$7,000 in cash?

Mr. MICHAUX. If I can make this statement, I think I can clear it up.

Mr. SIMON. I would like to know about those 2 people; not the other 3.

Mr. MICHAUX. All I know is this, regarding Mr. Butcher and Mr. Allen, that whatever the agreement was, was arranged and made by them with Mr. Paul Stone.

Mr. SIMON. I am asking you. You were the president of the company. Did either one of them ever put up a dime?

Mr. MICHAUX. May I read this in answer to it?

Mr. SIMON. I would like if you would tell me whether Allen or Butcher—

Mr. MICHAUX. I do not know other than the statement here.

Mr. SIMON. Can you tell me whether Allen and Butcher ever put up a dime?

Mr. MICHAUX. You are asking me a question which I can only answer whether they paid Mr. Stone back or not.

They did not put it up that I know of.

Mr. SIMON. As far as you know they did not put up a dime?

Mr. MICHAUX. No.

The CHAIRMAN. They did not get a dime out of it, either?

Mr. MICHAUX. No.

The CHAIRMAN. Let's read the Stone statement.

Mr. MICHAUX. Mr. Cassel—this is an 11-year past affair and I have forgotten a good bit of the works pertaining to it. When we were talking yesterday, you said to me you had better go and freshen your mind. Thank you for your advice.

The CHAIRMAN. I suggested that you ought to refresh your memory?

Mr. MICHAUX. That is right. I did. Thank you.

I found, in the beginning, it was Mr. Paul Stone, Mr. Butcher, and Mr. Allen, myself, and Mr. Cassel, making five and the man who held the land, Mr. Knott. Each of those were to put up \$25,000.

Mr. Stone put up the money, or negotiated for the land, and after starting with the project, for some reason or other, he said he would not go through. Then Mr. O'Hare was brought in from New York to take the project over.

The CHAIRMAN. Who brought Mr. O'Hare in?

Mr. MICHAUX. Mr. McNeil, whom I knew, said he knew a builder after Mr. Stone pulled out.

The CHAIRMAN. Mr. McNeil?

Mr. MICHAUX. Yes.

The CHAIRMAN. Who was he?

Mr. MICHAUX. He was a lawyer for Mr. O'Hare.

After Mr. Stone pulled out, he said he thought he could get a builder, he knew a builder in New York that was a church builder and he thought he would be glad to take this job, so we had him come down and after talking to him, he agreed to take Mr. Stone's place, by taking over the obligation of getting the land and we in turn gave promissory notes.

The CHAIRMAN. How much did Mr. Stone pay for the land?

Mr. MICHAUX. \$150,000.

The CHAIRMAN. Did he actually pay \$150,000?

Mr. MICHAUX. That is what this agreement said.

The CHAIRMAN. The agreement may say that. Did he actually pay for it?

Mr. MICHAUX. I feel sure he paid for it.

The CHAIRMAN. You are going to show us the documentary proof?

Mr. MICHAUX. Beg pardon?

The CHAIRMAN. You are going to have documentary proof he paid for it?

Mr. MICHAUX. He agreed and we gave him promissory notes obligating ourselves to pay him back. That is the way it came in, each promised \$25,000.

The CHAIRMAN. Did George Allen give him a promissory note for \$25,000?

Mr. MICHAUX. I think he did.

The CHAIRMAN. May we see that contract?

Mr. MICHAUX. Yes.

Mr. SIMON. Mr. Michaux, were you a close friend of Mr. McIntyre at the White House?

Mr. MICHAUX. Yes, sir.

Mr. SIMON. Is that Marvin McIntyre?

Mr. MICHAUX. Yes.

Mr. SIMON. How long have you been close friends?

Mr. MICHAUX. A number of years I presume.

Mr. SIMON. A number of years prior to 1942?

Mr. MICHAUX. Yes.

Mr. SIMON. Did you discuss this with him?

Mr. MICHAUX. Yes, sir.

Mr. SIMON. Was it your idea to bring George Allen into this picture?

Mr. MICHAUX. The way that happened, may I tell it?

Mr. SIMON. Yes.

Mr. MICHAUX. Mr. Cassel, we had a showing of a project that we were going to build and Mr. Cassel came to that showing. I did not know Mr. Cassel, and someone said, "There is a good architect. He would be a good fellow to design these buildings." Later I went to his office to talk to him about it, the pictures he had seen.

Mr. SIMON. You went to his office to talk to him about the pictures he saw at your place?

Mr. MICHAUX. That is right.

When I got there he showed me on the wall a project which he had planned to put on his farm. He got out the plans that we built Mayfair by and said that—"Here is a project I have been trying to get over," he said, and he says, "I have spent money getting these plans up and I haven't been able to do a thing with them." And he said, "If you can find someone who will sponsor this, I will give them so much of the stock, and I will pay you for your service."

Mr. SIMON. How much was he going to pay you, \$12,500?

Mr. MICHAUX. \$12,500. I went to New York and I had a friend—

The CHAIRMAN. He did agree to pay you \$12,500?

Mr. MICHAUX. That is right.

The CHAIRMAN. You agreed to accept that?

Mr. MICHAUX. Yes.

Mr. SIMON. Did he pay you the \$12,500?

Mr. MICHAUX. I only remember one payment, which I have a receipt for here.

The CHAIRMAN. How much was that for?

Mr. MICHAUX. I found this last night, \$5,681. I don't remember him paying any more.

Mr. SIMON. He produced here today a photostat copy of a cashier's check on the Riggs Bank for that amount, and he has also testified that the Munsey Trust Co. paid you about \$6,000 for his account. Do you deny getting the \$6,000?

Mr. MICHAUX. I do not remember it to be frank with you. I only received this.

Mr. SIMON. Is it your testimony that you did not get this \$6,000 or merely that you don't remember getting it?

Mr. MICHAUX. I don't remember.

Mr. SIMON. But you do not deny that you got it?

Mr. MICHAUX. I do not deny. I don't remember it.

Now when I went to New York, and I brought down Count DeBesa, he was a representative of Trujillo of Santo Domingo. He was a representative of Trujillo.

Mr. SIMON. A representative of Santo Domingo?

Mr. MICHAUX. No; of the President of Santo Domingo, and they were investing money here.

Mr. SIMON. The Government of Santo Domingo?

Mr. MICHAUX. No, Trujillo, himself.

Mr. SIMON. He was the President of Santo Domingo?

Mr. MICHAUX. Yes.

Mr. SIMON. This count was his representative in this country?

Mr. MICHAUX. Yes.

Mr. SIMON. How do you spell the count's name?

Mr. MICHAUX. DeBesa, D-e-B-e-s-a. He was a friend of mine for several years and Mr. Cassel approached me about this. I thought maybe I might be able to get him interested in this. I brought him down to Mr. Cassel's office.

He went over the plans and took it back to New York, and went before his lawyer, and his lawyer turned it down.

Then Mr. Cassel told me that he had another party that he was negotiating with, that he thought would be able to get—to do the job and he was expecting him down but never anything developed from that and later I spoke to Mr. Butcher and Mr. Allen.

The CHAIRMAN. You knew Mr. Butcher because you were broadcasting on his station at that time?

Mr. MICHAUX. That is right.

Mr. SIMON. Was Mr. Allen also a friend of yours?

Mr. MICHAUX. Yes, sir. He was a friend of mine back in the days when he was Commissioner.

The CHAIRMAN. Commissioner of the District of Columbia?

Mr. MICHAUX. That is right. He would always, whenever we had a problem with anybody that was on the relief, he personally would look after it and from that we developed a friendship that was mutual.

Mr. SIMON. And you brought Butcher and Allen into this picture?

Mr. MICHAUX. I spoke to Mr. Butcher and Mr. Butcher spoke to Mr. Allen after we told them the desperate need for colored housing; that nothing was being done at that time, and that we were very anxious and we had plans, and in which he said, if you bring them over we will look them over and anything we can do to help you out we will be glad to do it.

Mr. SIMON. Ultimately, did FHA give you a commitment on this Mayfair Gardens? Did the project go broke and there were \$709,000 worth of subcontractor's bills; is that right?

Mr. MICHAUX. That is correct, but here is what happened there. Mr. O'Hare, who was the contractor, who began to dig out—I think they struck water and the expense went up so high they failed and after they failed, then the project was taken, or sold, and FHA bought it back. The Government bought it back. At that time it failed, Mr. Henry J. Knott came into the picture and said he was backing Mr. O'Hare. He had to put up the money to Mr. Stone then. Mr. Stone first put up the money for the land, and then Mr. O'Hare, when he came in, he had to take his place.

Mr. SIMON. A second application was filed by Henry J. Knott for Mayfair Mansions as the mortgagor, and by the Reconstruction Finance Corporation Mortgage Company as the mortgagee; is that right?

Mr. MICHAUX. That is right.

Mr. SIMON. There was a \$2,800,000 mortgage given by the Government, that is, FHA-guaranteed mortgage and RFC made the mortgage; is that right?

Mr. MICHAUX. Yes. At first we could not get—we had gotten the limit of the law and a law had to be passed by Congress which enabled that amount to be increased.

Mr. SIMON. Yes, but in 1944, FHA gave you a commitment for \$2,815,000?

Mr. MICHAUX. That is right.

Mr. SIMON. And RFC made the mortgage?

Mr. MICHAUX. Yes.

Mr. SIMON. Were you helpful in getting RFC to make that mortgage?

Mr. MICHAUX. No; not unusually. I think it went through the regular channels. I do not believe there was pressure.

Mr. SIMON. Did you get any of your friends at the White House to get appointments at RFC for you?

Mr. MICHAUX. I do not think I went to RFC myself. I think Mr. O'Hare did that. He was the contractor.

Mr. SIMON. Did you help him in any way?

Mr. MICHAUX. No, sir.

Mr. SIMON. That came later on the mortgage for the shopping center?

Mr. MICHAUX. That is correct.

Mr. SIMON. After this mortgage was issued, and the building was just about completed, did FHA increase the commitment \$709,000?

Mr. MICHAUX. That was to pay off the subcontractors which had preferred stock into the project.

Mr. SIMON. And it was not required to finish the building, was it?

Mr. MICHAUX. It was the loss of the subcontractor who couldn't finish the building because he couldn't get contracts at that price.

Mr. SIMON. Hadn't the subcontractors already agreed to take preferred stock for \$708,000?

Mr. MICHAUX. I think that was done with Mr. Knott.

Mr. SIMON. In spite of the fact the building was about finished, they increased the commitment so the preferred stock could be redeemed?

Mr. MICHAUX. That is right.

Mr. SIMON. In connection with the redemption of the preferred stock, did Mr. Cassel have to get some papers signed by Mr. Powell?

Mr. MICHAUX. I don't remember.

Mr. SIMON. Were you here in the room this afternoon?

Mr. MICHAUX. Yes; I was.

Mr. SIMON. You heard Mr. Cassel testify that he had to pay Mr. Powell \$10,000?

Mr. MICHAUX. I think his statement so far as I am concerned—because he told you part of that but not all of it. I never told him that he could go ahead and pay any \$10,000. I didn't know where he was going to get it from. I don't remember him telling me about the \$10,000.

Mr. SIMON. You do not remember that?

Mr. MICHAUX. I don't remember it.

Mr. SIMON. Again I must ask you, are you denying that he told you about it or merely saying you do not remember?

Mr. MICHAUX. I do not remember.

Mr. SIMON. You do not remember?

Mr. MICHAUX. Because if he had, it would not have been an agreement on my part. As he said, I heard him make the statement that I said I was a preacher and that is the way you do things and I couldn't bother with it.

The CHAIRMAN. Did you make that statement to him?

Mr. MICHAUX. No, sir.

Mr. SIMON. You do not deny that he told you he was going to pay \$10,000?

Mr. MICHAUX. I do not remember.

Mr. SIMON. You just say you do not remember?

Mr. MICHAUX. I didn't make the statement.

Mr. SIMON. You do not deny that he told you he was going to pay \$10,000?

Mr. MICHAUX. I do not remember that at all, about the \$10,000.

Mr. SIMON. My question is, Do you deny that he told you he was paying Powell \$10,000?

Mr. MICHAUX. I deny that I told him to pay \$10,000 if that is the way he had to do it, and I also say I do not remember anything about him telling me that he had to pay Powell \$10,000.

Mr. SIMON. But you do not deny that he told you he was paying Powell \$10,000, do you?

Mr. MICHAUX. Well, it is between two roads. I have no defense on it. I don't remember.

Mr. SIMON. All you are willing to say is you do not remember his telling you?

Mr. MICHAUX. I do not remember him telling me, that is right, and now—

Mr. SIMON. He says that money came out of the rent rolls, out of the rents that the tenants paid.

Mr. MICHAUX. Yes.

Mr. SIMON. You were the president of the company, weren't you?

Mr. MICHAUX. Yes; I was.

Mr. SIMON. If there had been \$10,000 light on the rents you would know about it, wouldn't you?

Mr. MICHAUX. No, sir.

Mr. Cassel made no reports, even to FHA. We had a problem, what we thought and felt—

Mr. SIMON. It was customary not to make reports to FHA?

Mr. MICHAUX. They tried to get them.

Mr. SIMON. Generally the president of the company would know where \$10,000 went.

Mr. MICHAUX. Finally Mr. Cassel got the church and myself to sign an agreement where he would be executive vice president for 27 years.

Mr. McGhee was to be the attorney, and secretary for 27 years.

Mr. SIMON. How long were you going to be president?

Mr. MICHAUX. President for the same period of time.

Mr. SIMON. You were going to be president for 27 years?

Mr. MICHAUX. For 27 years, but that was all. We never had one meeting on policy. Mr. Cassel was the cheese for all the rats.

The CHAIRMAN. That is a pretty good expression.

Mr. MICHAUX. Yes, sir.

Mr. SIMON. You were present?

Mr. MICHAUX. Yes, but I knew no more than you do, only what he wanted to tell me, regarding the money.

Mr. SIMON. I can say unequivocally that Mr. Cassel never told me he was going to pay \$10,000 to Mr. Powell.

Mr. MICHAUX. I can say also that I do not remember.

Mr. SIMON. You just do not remember?

Mr. MICHAUX. That is all.

Mr. SIMON. When you went to get the money from RFC for the shopping center, did you go with him to RFC on that?

Mr. MICHAUX. No. Mr. Cassel went alone. As executive vice president he had all the money and all the transactions and all transfers.

Mr. SIMON. Did you arrange any appointments for him at RFC?

Mr. MICHAUX. No, sir.

Mr. SIMON. Did you talk to any of your friends at the White House about that money?

Mr. MICHAUX. No, sir, I did not.

Mr. SIMON. You never talked to any of them about borrowing money from the RFC?

Mr. MICHAUX. Not the shopping center. Mr. Cassel arranged all that.

Mr. SIMON. Did you ever talk to your friend at the White House about borrowing money from RFC for anything?

Mr. MICHAUX. I spoke to Mr. McIntyre when we were in trouble and I think Mr. McIntyre spoke to RFC to help us any way they could. I remember that.

Mr. SIMON. Ultimately, the Mansions needed some money; is that right.

Mr. MICHAUX. Yes.

Mr. SIMON. Mr. Chaite loaned some money?

Mr. MICHAUX. Yes. I think he did.

Mr. SIMON. Did you furnish him with the money for that loan?

Mr. MICHAUX. Mr. Cassel—

Mr. SIMON. Did you furnish—

Mr. MICHAUX. I am going to answer your question.

Mr. SIMON. I would be grateful if you would answer the question and make any explanation.

Mr. MICHAUX. I do not know what was transferred.

The CHAIRMAN. Did the money that Mr. Chaite loaned to Cassel— was it the money you gave to Mr. Chaite?

Mr. MICHAUX. Absolutely.

The CHAIRMAN. That is the answer.

Mr. MICHAUX. What happened, Mr. Cassel paid the church back nothing.

Mr. SIMON. Say that again.

Mr. MICHAUX. Mr. Cassel and I borrowed \$100,000 from the church, which was to be paid back. The only thing we ever got from Mr. Cassel, he drew \$10,000 a year.

The CHAIRMAN. You keep talking about Mr. Cassel. This was a corporation and you were the president of it.

Mr. MICHAUX. Yes.

The CHAIRMAN. You owned, or the church owned, 60 percent of the stock, of which you are the head; you owned 20 percent of the stock, Mr. Cassel, 20.

Mr. MICHAUX. Yes; that is right.

The CHAIRMAN. Now why do you keep referring to it as Mr. Cassel's business?

Mr. MICHAUX. Because he was the corporation after he became executive vice president.

The CHAIRMAN. He was what?

Mr. MICHAUX. He became the corporation after he became executive vice president.

Mr. SIMON. You consider the executive vice president as a higher job than the president?

Mr. MICHAUX. He took that position. That is all I know.

Mr. SIMON. What do you consider the function of the president?

Mr. MICHAUX. In the agreement we had we had no function.

Mr. SIMON. No function as the president?

Mr. MICHAUX. None.

Mr. SIMON. In any event, the church gave the cash to Mr. Chaite?

Mr. MICHAUX. That is right.

Mr. SIMON. And Mr. Chaite loaned the cash to Mr. Cassel?

Mr. MICHAUX. That is right.

Mr. SIMON. And he did not know it was the church's money, did he?

Mr. MICHAUX. I don't know whether he did or not.

Mr. SIMON. Did you ever tell him?

Mr. MICHAUX. No. I will tell you why.

Mr. SIMON. Did you ever ask?

The CHAIRMAN. Let's get the reason why.

Mr. MICHAUX. We had loaned Mr. Chaite money. We loaned him \$15,000 to save Mayfair or the extension, which he was to pay back. I mean we loaned it to the corporation. He handled all the money and, therefore, he was to pay us back on certain terms. He never paid back the first nickel and so then the project began to get into difficulties, where they were paying nobody. They paid no income tax, they paid no withholding tax, they paid—moneys that was withheld from the people that were working there, they took that money and somehow got it mixed up. They never paid that, and——

Mr. SIMON. Mr. Michaux, to make this clear when you say Mr. Cassel got this money, you do not mean he took it personally?

Mr. MICHAUX. No. I mean he handled it.

Mr. SIMON. It went into the building corporation, is that right?

Mr. MICHAUX. I don't know where it went. I know he handled it.

Mr. SIMON. The money he borrowed went to Mayfair Mansions, didn't it?

Mr. MICHAUX. Which money?

Mr. SIMON. The money that Mr. Cassel borrowed that you said he did not pay back.

Mr. MICHAUX. Yes, because each time we loaned it to him, it was to take up delinquent payments in New Jersey.

The CHAIRMAN. Why would you loan money to Mr. Cassel who turned around and gave it to the corporation?

Mr. MICHAUX. The corporation——

The CHAIRMAN. Why didn't you loan the money directly to the corporation and why didn't the church loan the money directly?

Mr. MICHAUX. Because we figured Mr. Cassel was trying to re-finance, with Mr. McGhee, the project, so that they could pay off all obligations and the only way we could be sure of being in the picture when the loan was made was that we not be the lenders of the money, so in turn we gave the money to Mr. Chaite.

Mr. SIMON. You did not want Cassel to know you were the lender?

Mr. MICHAUX. Not at all.

Mr. SIMON. Is that what you just said, you did not want him to know it?

Mr. MICHAUX. No, because of the fact we felt if we had loaned him money and he did not pay any attention to it.

Mr. SIMON. The previous loans weren't to Cassel. They were to Mayfair Mansions, isn't that right?

Mr. MICHAUX. Which ones are they?

Mr. SIMON. If I understand your testimony correctly, you say the church loaned some money to Cassel which he did not pay back?

Mr. MICHAUX. That is right.

Mr. SIMON. Those loans were not made to Cassel but were made to Mayfair Mansions, is that right?

Mr. MICHAUX. That is right.

Mr. SIMON. So that when you talk about not wanting to loan him any more money because he hadn't paid the first loans back, what you mean is that Mayfair Mansions had not paid back the money it had borrowed. Isn't that right?

Mr. MICHAUX. That is correct.

Mr. SIMON. In any event you did not want Mr. Cassel to know where the money was coming from, so you gave it to Mr. Chaite and you had him make the loan?

Mr. MICHAUX. That is correct.

Mr. SIMON. After the loan came due, there wasn't any money to pay it, is that right?

Mr. MICHAUX. That is right.

Mr. SIMON. And so ultimately, you made a deal to buy Cassel's stock?

Mr. MICHAUX. No, sir.

Mr. SIMON. Or he offered to sell it to you?

Mr. MICHAUX. Yes. Here is what he did: Mr. Cassel had made promise to the church that they were going to be able to refinance the project and take care of all the delinquents and all the bad bills, and on those grounds, we gave the money to Mr. Chaite whenever he needed it to keep foreclosure off.

Mr. SIMON. Do you have a record of how much money you gave Mr. Chaite to make these loans?

Mr. MICHAUX. About \$102,000.

Mr. SIMON. Do you have the dates on which you gave it to him?

Mr. MICHAUX. I know it was all under one heading when we made the agreement with him to—the management was so bad that we asked Mr. Chaite to take over the management.

Mr. SIMON. I would like to get, if you would, Mr. Michaux, the amount of money you gave to Chaite to loan to Cassel, and when you gave it to him.

Mr. MICHAUX. I do not have the exact dates here. The total amount which Mr. Cassel agreed to sign for is one hundred—\$89,972.50.

Mr. SIMON. Is that loaned all at one time?

Mr. MICHAUX. No, different times and \$23,000 total.

Mr. SIMON. Can you give us the times when the—when was the \$23,000 loaned?

Mr. MICHAUX. That was the last loan we made.

Mr. SIMON. When was that?

Mr. MICHAUX. It doesn't show any date on here, but that was the last loan we made him just before this agreement.

Mr. SIMON. At one time you gave Chaite \$45,000, didn't you?

Mr. MICHAUX. Yes.

Mr. SIMON. What is the date of that?

Mr. MICHAUX. I had that yesterday, but I do not have it today with me.

Mr. SIMON. You had a piece of paper yesterday in which Chaite said, "I acknowledge receipt of \$45,000."

Mr. MICHAUX. That is right.

Mr. SIMON. What was the date of that?

Mr. MICHAUX. I do not remember that date. I have that paper though.

The CHAIRMAN. You did loan him \$45,000 at one time?

Mr. MICHAUX. Yes.

Mr. SIMON. That was for the purpose of his loaning the money to Cassel?

Mr. MICHAUX. No; for Cassel to pay off the two deferred payments that were behind.

The CHAIRMAN. You were first going to loan it to Cassel. He in turn was going to turn it over to the Mansions and the Mansions was to pay off these two notes?

Mr. MICHAUX. That is right.

The CHAIRMAN. Why didn't the church loan the money direct?

Mr. MICHAUX. We were trying to build up our equity so that when— because Mr. Cassel—

The CHAIRMAN. Did you authorize Mr. Chaite to take a mortgage, or to take Mr. Cassel's farm in as collateral security?

Mr. MICHAUX. I think that was up before, long before.

The CHAIRMAN. Did you authorize that?

Mr. MICHAUX. No. I think he gave that to Mr. Deal.

The CHAIRMAN. He gave it to Mr. Chaite. Did you tell Mr. Chaite to secure that mortgage?

Mr. MICHAUX. No. I thought Mr. Chaite was like all lawyers, he would get all the security he could get. We were very vague on the arrangements other than advice from the lawyer. Mr. Chaite was very, or seemed to have been, very lenient with Mr. Cassel, because he was trying every way he could to try himself to get a loan, and clear up the whole thing.

The CHAIRMAN. Referring to Mr. Cassel, you mean the Mansion, didn't you?

Mr. MICHAUX. We just knew him as Cassel.

The CHAIRMAN. He was the vice president, owned 20 percent, you owned 20, the church 60, and you were helpless?

Mr. MICHAUX. Yes.

The CHAIRMAN. Just as helpless as a baby.

Mr. MICHAUX. That is right. Of course, we had a voting agreement that all three of the stockholders would have to agree on anything.

The CHAIRMAN. Then you owning 20 and the church 60, you could have done anything you wanted to.

Mr. MICHAUX. Not with the agreement we had.

The CHAIRMAN. You just said the agreement said all three of you had to agree. That means all you had to do was disagree and you could have had anything you wanted.

Mr. MICHAUX. We never disagreed because we were too glad—

The CHAIRMAN. You what?

Mr. MICHAUX. We never disagreed because we were too glad to have him run the project.

The CHAIRMAN. You were glad to have him run it? I thought you were complaining about it.

Mr. MICHAUX. I am not complaining but about one thing, and that is the bills he piled up, \$300,000.

Mr. SIMON. Did you know that Cassel had to put up his farm as collateral for that last loan from Chaite?

Mr. MICHAUX. Nobody ever thought of taking his farm, I don't think.

Mr. SIMON. That was not my question. Did you know that he had to put up his farm as collateral for the last loan from Chaite?

Mr. MICHAUX. I think I knew he had a farm.

Mr. SIMON. You knew that?

Mr. MICHAUX. Yes, sir. Of course.

Mr. SIMON. He borrowed money which was the church's money?

Mr. MICHAUX. Who borrowed it?

Mr. SIMON. Cassel.

Mr. MICHAUX. That is correct.

Mr. SIMON. He borrowed money which was the church's money.

Mr. MICHAUX. That is correct.

Mr. SIMON. He turned that money over to a company in which you and the church owned 80 percent of the stock?

Mr. MICHAUX. That is correct.

Mr. SIMON. So at least 80 percent of the loan was to go for the church's benefit and your benefit, is that right?

Mr. MICHAUX. That is right.

Mr. SIMON. And yet he had to put up his farm as collateral for the loan; is that right?

Mr. MICHAUX. He didn't have to do it.

Mr. SIMON. At least he did, didn't he?

Mr. MICHAUX. He did.

Mr. SIMON. And he never knew until today that it was the church's money that he had borrowed?

Mr. MICHAUX. He tried everywhere else to get it and we had to lend it.

Mr. SIMON. But he did not know it was the church's money, did he?

Mr. MICHAUX. If he had, we would have never gotten it.

Mr. SIMON. He didn't know, did he?

Mr. MICHAUX. No, indeed.

Mr. SIMON. As of today you own 20 percent of the stock in this building; is that right?

Mr. MICHAUX. That is right.

Mr. SIMON. How much have you paid for that 20 percent?

Mr. MICHAUX. Well, I am a strawman. The church owns it all.

Mr. SIMON. What is the church's investment in the building in cash?

Mr. MICHAUX. Well, so far as investment that they put in, I put in 10 years of work and we haven't had a dime.

The CHAIRMAN. In dollars they haven't put in anything, have they?

Mr. MICHAUX. Yes.

Mr. SIMON. How much has the church put in in dollars?

Mr. MICHAUX. We put in \$100,000 to start with.

Mr. SIMON. You got \$49,000 of that back?

Mr. MICHAUX. No; thirty-thousand-dollars-some back.

Mr. SIMON. \$70,000 there. How much else did the church put in in cash?

Mr. MICHAUX. We put up the \$100,000 when we bought from Knott.

Mr. SIMON. You bought that back, didn't you?

Mr. MICHAUX. No; we became responsible. We borrowed that money and paid ourselves back through the church properties, up to the \$250,000.

Mr. SIMON. The \$250,000 you got paid back?

Mr. MICHAUX. Which one?

Mr. SIMON. The \$250,000?

Mr. MICHAUX. No. The church borrowed that, and paid themselves back.

Mr. SIMON. I want to know how much money the church has put in here that has not been paid back.

Mr. MICHAUX. That \$100,000 has been paid back and the \$70,000 has not been paid back.

Mr. SIMON. You say no part of that \$170,000 has not been paid back?

Mr. MICHAUX. I do not call it paid back when we are responsible for the mortgage.

We borrowed the money ourselves and put it up.

Mr. SIMON. You are talking about the Walker & Dunlop mortgage.

Mr. MICHAUX. Yes.

Mr. SIMON. Forgetting the Walker & Dunlop mortgages, you are not personally liable for that; are you?

Mr. MICHAUX. Yes, indeed.

Mr. SIMON. Only the corporation is liable for it?

Mr. MICHAUX. No, sir. The church is liable for it.

Mr. SIMON. It is just about paid off anyway; isn't it?

Mr. MICHAUX. No, sir.

Mr. SIMON. How much is left?

Mr. MICHAUX. I do not know exactly but I know it has gone in there about 2 years.

Mr. SIMON. Mr. Walker tells us it is just about paid off.

Mr. MICHAUX. It is a long ways yet. It is 3 years yet to pay it.

Mr. SIMON. It is a 5-year note, but he gets all the net income from the building to apply on the note; is that right?

Mr. MICHAUX. That is right.

Mr. SIMON. His testimony here is that the net income has been sufficient so that it is practically paid off.

Mr. MICHAUX. No, sir. I wish it was.

Mr. SIMON. Without disputing whether you are right or Mr. Walker is right, apart from the \$250,000 loan to Walker & Dunlop, is there any money—the \$250,000 loan from Walker & Dunlop, which is being paid off out of the rents, is there any money the church has advanced for this building which has not been paid back?

Mr. MICHAUX. For Mayfair Mansions?

Mr. SIMON. Yes.

Mr. MICHAUX. \$15,000, we never got a dime. That is why we stopped lending direct to the Mansions.

Mr. SIMON. Anything else?

Mr. MICHAUX. Yes; from Knott, 2 notes of \$7,000 that we gave Mr. Knott, I believe, which the church never received back.

The CHAIRMAN. Is that supposed to be paid back?

Mr. MICHAUX. \$3,500 of it.

The CHAIRMAN. Mr. Knott is a very responsible person.

Mr. MICHAUX. Mr. Cassel to pay it back. We put it up for Mr. Cassel, \$3,500 for him.

The CHAIRMAN. For Cassel. He owns 25 percent, you own 80 percent, and everything goes up for him.

Mr. SIMON. You got a \$15,000 one and a \$7,000. That is \$22,000. Did you ever pay out any other money you did not get paid back?

Mr. MICHAUX. I did not understand the question.

Mr. SIMON. You just said you paid out \$15,000 and \$7,000 that was not repaid. That is \$22,000.

Mr. MICHAUX. That is right.

Mr. SIMON. Have you ever paid out any other money out of this building that has not been repaid?

Mr. MICHAUX. I do not remember. All I know is every time I—

Mr. SIMON. All you remember today is \$22,000?

Mr. MICHAUX. \$22,000 and \$170,000.

Mr. SIMON. The \$170,000 was paid back out of the Walker & Dunlop loan, wasn't it?

Mr. MICHAUX. No, sir.

Mr. SIMON. It has not been?

Mr. MICHAUX. We are responsible for the loan I am trying to say.

Mr. SIMON. But you have gotten the money back out of the proceeds of that loan, didn't you?

Mr. MICHAUX. Got the money back?

Mr. SIMON. Yes.

Mr. MICHAUX. We don't consider we have it back. We consider we still owe it.

Mr. SIMON. Let's assume for the moment that you did get it back out of the Walker & Dunlop loan.

Mr. MICHAUX. Yes.

Mr. SIMON. Walker & Dunlop actually paid you the \$170,000, didn't they?

Mr. MICHAUX. No. They paid this amount that was in this loan, \$102,000.

Mr. SIMON. What happened to the \$102,000?

Mr. MICHAUX. The church took it back.

Mr. SIMON. The church got it?

Mr. MICHAUX. Yes.

Mr. SIMON. Can you remember anything other than the \$22,000 that the church has paid out that has not been repaid?

Mr. MICHAUX. Yes. I will tell you what we have paid back. We have paid out \$40,000, \$15,000 or \$20,000 in taxes, as near as I can remember.

Mr. SIMON. That has never been repaid?

Mr. MICHAUX. We had to take care of it after we took it over.

Mr. SIMON. Have you ever been repaid that money?

Mr. MICHAUX. No. Mr. Cassel was out of it then.

Mr. SIMON. Have you ever been repaid the money?

Mr. MICHAUX. From which?

Mr. SIMON. You just said you paid \$40,000 for taxes.

Mr. MICHAUX. No. That was on Extensions. I don't think we have it out of it.

Mr. SIMON. On the Mayfair Extensions?

Mr. MICHAUX. Yes.

Mr. SIMON. I am talking about Mayfair Mansions now.

Mr. MICHAUX. I see. So far as we were concerned it all was so mixed up.

Mr. SIMON. Can you think of anything other than the \$22,000?

Mr. MICHAUX. That is all I can remember off the record.

Mr. SIMON. And the church now owns this property?

Mr. MICHAUX. We hope to own it when it is paid for.

Mr. SIMON. Its present replacement value is about \$5 million?

Mr. MICHAUX. I don't know.

Mr. SIMON. You don't know.

Who voted the church's activity here? Is there a board of directors that voted to loan this money and buy this stock?

Mr. MICHAUX. Yes.

Mr. SIMON. Who are the members of the board of directors?

Mr. MICHAUX. There are several.

Mr. SIMON. Who are they?

Mr. MICHAUX. One is Mr. Vonroy.

Mr. SIMON. What is his first name?

Mr. MICHAUX. Charles Vonroy.

Mr. SIMON. Who are the others?

Mr. MICHAUX. Myself is one, Howard W. Poole is one.

Mr. SIMON. R. W. Poole?

Mr. MICHAUX. Howard W. Poole.

Mr. SIMON. That is three.

Mr. MICHAUX. Lewis Michaux.

Mr. SIMON. Lewis Michaux?

Mr. MICHAUX. Yes.

Mr. SIMON. Is he your brother?

Mr. MICHAUX. He is my brother. I think he is a director of the Mayfair Mansions. I would rather give you that from the record.

Mr. SIMON. Don't you know who the directors of the church are?

Mr. MICHAUX. Of the church?

Mr. SIMON. Yes.

Mr. MICHAUX. That is Mayfair you are talking about.

Mr. SIMON. No; I am talking about the church, as to who voted to buy the stock and make these deals.

Mr. MICHAUX. We borrowed the money from the church.

Mr. SIMON. Who acted for the church?

Mr. MICHAUX. The directors.

Mr. SIMON. Who are the church directors?

Mr. MICHAUX. Charles Vonroy, Howard W. Poole, Elder Michaux.

Mr. SIMON. That is three.

Mr. MICHAUX. Yes, and Mary, my wife, is a director.

Mr. SIMON. That is four.

Mr. MICHAUX. And Mr. McBride.

Mr. SIMON. Mr. McBride.

Mr. MICHAUX. Five.

Mr. SIMON. What is his first name?

Mr. MICHAUX. Harvey McBride.

Mr. SIMON. That is five.

Mr. MICHAUX. That is all.

Mr. SIMON. Are there just five members of the board of the church?

Mr. MICHAUX. Seven, I think.

Mr. SIMON. Who are the other two?

Mr. MICHAUX. We have Vonroy—there is Jenney B. Harris.

Mr. SIMON. Who?

Mr. MICHAUX. Mr. McCrary, I think.

Mr. SIMON. Who is the other one?

Mr. MICHAUX. The other one is—there is one that has been excused and has not been reported yet.

Mr. SIMON. Actually, elder, aren't you the church?

Mr. MICHAUX. No, indeed. Christ is the Church.

Mr. SIMON. I understand that.

Mr. MICHAUX. No; you do not understand if you ask me if I am the church.

Mr. SIMON. Don't you run this particular church?

Mr. MICHAUX. Run it how?

Mr. SIMON. Its financial affairs?

Mr. MICHAUX. I am a director, but not the only one.

Mr. SIMON. Don't you control these financial affairs all by yourself?

Mr. MICHAUX. No, sir.

Mr. SIMON. You say this board did all that?

Mr. MICHAUX. The board has to be notified of everything that is done, and we do it through the board.

Mr. SIMON. And did the board vote on all these things?

Mr. MICHAUX. They vote on everything.

Mr. SIMON. Does the board keep minutes of its meetings?

Mr. MICHAUX. Yes, sir.

Mr. SIMON. Do the minutes of the board meetings reflect all these loans?

Mr. MICHAUX. I am quite sure it does.

Mr. SIMON. Could you make those board minutes available to us?

Mr. MICHAUX. I think so. Mr. Chaite ought to have them. He is the lawyer, I think he has all those.

The CHAIRMAN. We will get Mr. Chaite—will you please—

Mr. MICHAUX. There is one more statement I want to make. I want to say this to you, in reference to Mr. Cassel and our negotiations with him, we were glad for Mr. Cassel to operate and make this thing a success.

The CHAIRMAN. A what?

Mr. MICHAUX. Make it a success. We never bothered him in any of the management until we were threatened with foreclosure.

The CHAIRMAN. Until what?

Mr. MICHAUX. Until it was threatened by a trust company of New Jersey with foreclosure. We left everything in his hands. It seems strange, but being a preacher I was glad for him to do it.

The CHAIRMAN. You are sort of a Dr. Jekyll and Mr. Hyde. In one breath you praise him and—

Mr. MICHAUX. I am not praising him at all now.

The CHAIRMAN. I beg your pardon?

Mr. MICHAUX. We never bothered him until it came to the place where he and Mr. McGhee were trying Metropolitan Insurance Co. and tried several other private loan organizations, and then he came with a proposition. We got all of this record. He himself made the

proposition to sell it. We never made a proposition to sell it. He came with a proposition where he could get \$400,000 for our equity, and pay off about \$300,000, which left \$31,000 for him and \$31,000 for me and a fixed sum for the church. It was taken up by the church when he offered the sale and they decided, well, we have struggled thus far with this thing, and it is the only colored project that has ever been of this size, operated by colored. It is a shame to let it go. We asked Mr. Cassel, will he take what he says he will get. First he didn't tell us who the parties were to sell it to. He said he didn't know. That destroyed our confidence. He said he did not know who it was that was going to buy it. Then Mr. McGhee, he said, had a party that wanted to buy it. He didn't know. Later, a fellow who Mr. McGhee was a lawyer for was going to take it over. We then asked Mr. Cassel—I have the letter where he wrote, saying this is the only thing to do, for us to sell this project so we can get something out of it, and when he said that, then I took it up with the board of the church and they agreed to pay him the part that he would get out of it. That was the way the deal was made, no pressure on him. All we were trying to do was keep our money intact. That was all, and he wrote the letter, he made the proposition, we put in a fee for Mr. McGhee of \$10,000 and we paid that, the lawyer's fee.

We paid him \$31,000 as the portion which he said he would get, and I would get, and the contract called for this to be done, any time any one of the corporate members of the corporation wanted to sell out they would have to give the parties that were interested the first chance for 6 months. That is the way it was done. Mr. Cassel had 4 apartments out there at Mayfair for him and his wife, 4, a whole suite. He drew \$10,000 a year, 5 from Extension and 5 from Mayfair, and when I went around these gentlemen said I went down to Newport and spoke for them.

I went to the Industrial Bank in Washington, where the church has a credit, to borrow the money, and he said "No," we do not want his name in the bank.

The CHAIRMAN. When you were doing all that, weren't you doing 60 percent for the church and 20 percent for yourself?

Mr. MICHAUX. We did it for him as well.

The CHAIRMAN. He had 20 and the church 60. You were working for yourself and the church, too; weren't you?

Mr. MICHAUX. Absolutely. I was saying it got so bad people were working out there took our name as bad faith. It got so bad we could not get any insurance. We had to stop Mr. Cassel. Or we wouldn't have had a project.

The CHAIRMAN. There is one thing we cannot quite understand, is why instead of the church loaning money direct to the project itself, that you loaned the money to Mr. Chaite, who, in turn, would loan it to Mr. Cassel, and Mr. Cassel then would loan it to the project, unbeknown to Mr. Cassel that the money was coming from you?

Mr. MICHAUX. I gave you the reason for that.

The CHAIRMAN. You end up with stock and \$28,500.

Mr. MICHAUX. No; \$30,000 or \$40,000. That was his own offer.

The CHAIRMAN. I see.

Mr. MICHAUX. Don't forget that. That was his offer, not ours. We never made him any offer.

The CHAIRMAN. Thank you very much. Do you want to stay right there, and we will call Mr. Chaite, please. Thank you, Elder, very much.

Mr. Chaite, will you come forward, please?

We may have some questions of you and Mr. Chaite. All we want are the facts.

Mr. MICHAUX. That is all we want to give you. If we didn't do what we did, we wouldn't have a project.

The CHAIRMAN. Mr. Chaite, will you be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF ARTHUR M. CHAITE, MAYFAIR MANSIONS,  
WASHINGTON, D. C.**

Mr. CHAITE. Yes.

The CHAIRMAN. Your name and address, please.

Mr. CHAITE. Arthur M. Chaite, 1523 L Street NW.

Mr. SIMON. Mr. Chaite, you were with the FHA during what period of time?

Mr. CHAITE. 1936 to 1946.

Mr. SIMON. 1936 to 1946?

Mr. CHAITE. Yes.

Mr. SIMON. You opened a law office here after you left the Federal Housing Administration?

Mr. CHAITE. Right.

Mr. SIMON. Did the Gospel Spreading Association provide you with some money to loan to Albert Cassel?

Mr. CHAITE. Yes, sir.

Mr. SIMON. When and how much?

Mr. CHAITE. I don't know the exact amounts. They were various sums.

Mr. SIMON. Did you keep any records?

Mr. CHAITE. I kept a special account for the Mayfair Mansions transactions.

Mr. SIMON. Do you have that with you?

Mr. CHAITE. No, sir.

Mr. SIMON. Where is it?

Mr. CHAITE. In your possession.

Mr. SIMON. Does it show how much money you got from them and how much you loaned them?

Mr. CHAITE. Yes, sir.

Mr. SIMON. Do you know what it shows?

Mr. CHAITE. No, sir, except I know the final amount at the final closing was about one-hundred-and-sixty-six-thousand-some-odd dollars.

Mr. SIMON. Did you loan Cassel \$40,000, taking his note for it?

Mr. CHAITE. Well, I loaned the money to Mayfair Mansions.

Mr. SIMON. You loaned him \$40,000?

Mr. CHAITE. I loaned the money to Mayfair Mansions.

Mr. SIMON. Not to Cassel?

Mr. CHAITE. Not to Cassel.

Mr. SIMON. Are you absolutely sure of that?

Mr. CHAITE. I am certain of that, yes.

Mr. SIMON. On Saturday you were interviewed in executive session, is that right?

Mr. CHAITE. Yes, sir.

Mr. SIMON. Were you asked these questions and did you make these answers:

Question. Did you ever loan \$10,000 to Cassel for 2 or 3 years before the \$40,000 loan?

Mr. CHAITE. I don't know, Mr. Simon. I will have to check my records.

Question. It is customary for you to make these loans to people?

Mr. CHAITE. No, sir.

Question. Would you remember whether you had ever made a \$10,000 loan to Mr. Cassel?

Mr. CHAITE. I don't make any loans—I didn't make any loans to Mr. Cassel. I acted as an attorney for the Gospel Spreading Association in making those advances to keep the project going.

Then skipping a space, you were asked, you said: "Did I loan him money personally? No, I acted as agent for someone else."

Question. As an agent for someone else. How many times did you loan money to Cassel?

Mr. CHAITE. I would say 2 or 3 times.

Question. Was one \$40,000; is that right?

Mr. CHAITE. Yes.

Question. What were the other 1 or 2 times?

Mr. CHAITE. I don't know.

Question. Do you know the amounts?

Mr. CHAITE. No; not offhand.

Question. In every case was it Gospel Church?

Mr. CHAITE. Oh, yes.

Mr. SIMON. As far as you know, Cassel did not know whose money it was you were loaning him; is that right?

Mr. CHAITE. As far as I know, I don't know what Mr. Cassell knew about it.

Were you asked those questions and did you give those answers?

Mr. CHAITE. Yes, sir.

Mr. SIMON. And didn't you say then on Saturday that you had loaned money to Cassel?

Mr. CHAITE. Well, Mr. Cassel acting as executive vice president of Mayfair Mansions in his relationship with me was Mayfair Mansions.

Mr. SIMON. Who were you representing?

Mr. CHAITE. Gospel Spreading Association.

Mr. SIMON. Really? You weren't representing Mayfair Mansions?

Mr. CHAITE. No, sir.

Mr. SIMON. On Saturday, didn't you tell us that you were the attorney for Mayfair Mansions?

Mr. CHAITE. At what time?

Mr. SIMON. At any time.

Mr. CHAITE. I am acting as an attorney for Mayfair Mansions now and have been for since 1951.

Mr. SIMON. Who were you representing at the time of these loans?

Mr. CHAITE. Gospel Spreading Association.

Mr. SIMON. You didn't think you were representing Mr. Michaux?

Mr. CHAITE. In his capacity as president of Gospel Spreading Association, yes.

Mr. SIMON. When Mr. Cassel came to you, did you tell him who your client was?

Mr. CHAITE. No, sir.

Mr. SIMON. Is it customary for you to deal with people without telling them who your client is?

Mr. CHAITE. There is no need to disclose my clients to people.

Mr. SIMON. You say that you were acting only as an attorney for the church?

Mr. CHAITE. That is right.

Mr. SIMON. The church owned 60 percent of the stock in this company?

Mr. CHAITE. That is right.

Mr. SIMON. You knew that?

Mr. CHAITE. Yes, sir.

Mr. SIMON. You know the difference between loaning money to a corporation and loaning it to an individual, don't you?

Mr. CHAITE. No.

Mr. SIMON. Is it the same thing to you?

Mr. CHAITE. A loan is a loan.

Mr. SIMON. Regardless of whether it is to a corporation or an individual?

Mr. CHAITE. What do you mean by that question?

Mr. SIMON. Exactly what I asked.

Mr. CHAITE. I don't understand it.

Mr. SIMON. Don't you think there is any difference between a loan to an individual and a loan to a corporation?

Mr. CHAITE. In what respect, Mr. Counsel? Do you mean the evidence of indebtedness received from either one of the parties?

Mr. SIMON. In one case Cassel would have to pay the loan back and in the other case he wouldn't; is that right?

Mr. CHAITE. You mean personally?

Mr. SIMON. Yes.

Mr. CHAITE. I would concede to that; yes.

Mr. SIMON. But other than that you still say you didn't see any difference between loaning the money to Cassel and loaning it to Mayfair Mansions?

Mr. CHAITE. Are you waiting for an answer from me?

Mr. SIMON. Yes.

Mr. CHAITE. I am sorry. I didn't remember the question.

Mr. SIMON. Don't you think there is any difference between making a loan to Cassel and making a loan to Mayfair Mansions?

(No response.)

The CHAIRMAN. Let me ask you, did Cassel put the money in the Mayfair Mansions?

Mr. CHAITE. Oh, yes.

The CHAIRMAN. You loaned the money to him as an individual, he in turn put it in the Mansions, which was owned 60 percent by the church and 20 percent by the gentleman sitting to your right.

Mr. CHAITE. Senator, I loaned the money to Mayfair Mansions via Mr. Albert Cassel.

The CHAIRMAN. Via him?

Mr. CHAITE. Yes.

Mr. SIMON. What do you mean by that?

Mr. CHAITE. He came for the money and he made the request for it.

Mr. SIMON. Whose note did you take?

Mr. CHAITE. Mayfair Mansions.

Mr. SIMON. You say you don't think there is any difference between a note by Cassel and a note by Mayfair Mansions?

Mr. CHAITE. Certainly there is a difference.

The CHAIRMAN. If you took Mayfair Mansions' note why did you have Cassel give you his farm as collateral against Mayfair Mansions' note?

Mr. CHAITE. I don't know why.

The CHAIRMAN. But you did?

Mr. CHAITE. I have it; yes. I had it.

The CHAIRMAN. You did take his farm as collateral?

Mr. CHAITE. Yes.

The CHAIRMAN. Why did you do that?

Mr. CHAITE. I don't know why.

Mr. SIMON. And you knew——

Mr. CHAITE. It was part of the transaction.

Mr. SIMON. You knew when you took his farm as collateral you knew he owned only 20 percent of the stock of Mayfair Mansions?

Mr. CHAITE. Yes.

Mr. SIMON. And the church and the elder owned 80 percent of the stock?

Mr. CHAITE. Yes, sir.

Mr. SIMON. The money was going back virtually to the same place it came from. The money came from the church and it was going back to the corporation they owned 80 percent of it.

Mr. CHAITE. That is not where it came from.

Mr. SIMON. Didn't the money come from the church?

Mr. CHAITE. It came from the church, and went to Mayfair Mansions.

Mr. SIMON. It was going back to Mayfair Mansions which they owned 60 percent of and the elder 20.

Mr. CHAITE. I don't think, Mr. Counsel, loaning money to a corporation means it is going back to it.

Mr. SIMON. Didn't the money go to the corporation?

Mr. CHAITE. It went to the corporation, but that is not going back to it.

Mr. SIMON. The money came from the church?

Mr. CHAITE. Yes, sir.

Mr. SIMON. And it went to a corporation which the church and the elder owned 80 percent of the stock of?

Mr. CHAITE. That is right.

Mr. SIMON. And you knew that Cassel didn't know where the money came from?

Mr. CHAITE. I didn't say I knew that. I said I didn't know what Mr. Cassel knew.

The CHAIRMAN. You never told him it came from the church, did you?

Mr. CHAITE. He never asked me, I never told him.

Mr. SIMON. As far as you know did anybody else ever tell him?

Mr. CHAITE. I don't know if they did.

Mr. SIMON. As far as you know did anybody else ever tell him?

Mr. CHAITE. I don't know.

The CHAIRMAN. Why did you take his farm as collateral?

Mr. CHAITE. Senator, you have asked me that question 3 or 4 times.

The CHAIRMAN. Yes. I am very, very much interested in it.

Mr. CHAITE. I had no specific reason for taking it.

The CHAIRMAN. Here is a man that owned 20 percent of this corporation. You were representing people that owned 80 percent of it. You have taken collateral from a man that owned 20 percent of it. What were you trying to do?

Mr. CHAITE. I was trying to do nothing except to protect the loan.

Mr. SIMON. The loan was to the Mansion. At least proceeds went to the Mansion. They didn't go to Mr. Cassel personally.

Mr. CHAITE. No, sir.

The CHAIRMAN. He got no benefit out of it whatsoever, did he, excepting as he owned 20 percent of the property?

Mr. CHAITE. That is right.

The CHAIRMAN. But your client owned 80 percent?

Mr. CHAITE. That is right.

The CHAIRMAN. Yet you made him put up the farm as collateral.

Mr. CHAITE. I didn't make him put up anything.

The CHAIRMAN. He put it up.

Mr. CHAITE. That is right.

Mr. SIMON. Did you ask him to?

Mr. CHAITE. No, sir. I never knew he had a farm.

Mr. SIMON. Did he just come in and say, "I will be glad to put my farm up"?

Mr. CHAITE. I think he must have offered it as security.

Mr. SIMON. Did he, or did you ask him?

Mr. CHAITE. I can't remember the exact conversation. The answer is, I did have it. It was offered to me. I took it and accepted it, and I had it.

The CHAIRMAN. The end result is that for \$20,000 or \$30,000 the elder and the church ended up owning the whole project and Mr. Cassell testified that he sold his stock in order to keep from losing his farm.

Mr. CHAITE. I heard Mr. Cassel say that and that may be an idea he had, but I am sure Mr. Cassel never worried about losing his farm.

The CHAIRMAN. Why?

Mr. CHAITE. Because I assured him on many occasions that his farm would never be lost.

The CHAIRMAN. Why did you take it in as collateral security if you didn't intend to use it, or take over the farm if the note wasn't paid?

Mr. CHAITE. There is no answer to your question why, Senator.

Mr. SIMON. This is very interesting. You say you assured him he would never lose his farm?

Mr. CHAITE. Yes.

Mr. SIMON. I take it from that he was deeply concerned about losing the farm, is that right?

Mr. CHAITE. I don't know if he was deeply concerned. It was perhaps something that was voluntarily made by myself when I told him, you need never worry about losing your farm.

Mr. SIMON. Did you tell him at that time that the church's money was the money you loaned?

Mr. CHAITE. I never told him whose money it was.

Mr. SIMON. Did you ever offer to release the farm as security from the loan?

Mr. CHAITE. I think it was released.

Mr. SIMON. Before the loan was paid?

Mr. CHAITE. I think so.

Mr. SIMON. Do you have a written record of that?

Mr. CHAITE. No, sir.

Mr. SIMON. Because I see him shaking his head which means one of you isn't telling the truth.

Mr. CHAITE. I am sorry——

Mr. SIMON. It would be an easy matter to check on the record. Do you say that the farm was released from the loan before the loan was paid?

Mr. CHAITE. My recollection is that at 1 or 2 occasions that farm was being released from the security of the mortgages.

Mr. SIMON. Are you able to say under oath that it was?

Mr. CHAITE. I am not able to say anything except that that is my recollection.

Mr. SIMON. May I ask you this: What about the books? Where are they?

Mr. CHAITE. What books?

Mr. SIMON. The books for Mayfair Mansions prior to the time we are talking about.

Mr. CHAITE. I don't know where they are, Mr. Counsel.

Mr. SIMON. You represented Mayfair Mansions in acquiring the stock of Cassel?

Mr. CHAITE. No, sir. I represented Gospel Spreading Association.

Mr. SIMON. And at that time they became the owner of the outstanding stock?

Mr. CHAITE. That is right.

Mr. SIMON. As a lawyer were you concerned with their getting the books?

Mr. CHAITE. We asked on 1 or 2 occasions for the books.

Mr. SIMON. Who did you ask?

Mr. CHAITE. Mr. McGee, I think I asked Albert Cassel.

Mr. SIMON. Did he give you the books?

Mr. CHAITE. No, sir.

Mr. SIMON. Why did you go ahead and pay the money without getting the books?

Mr. CHAITE. I didn't pay any money.

Mr. SIMON. You permitted your client to, didn't you?

Mr. CHAITE. Yes, sir, to buy the stock.

Mr. SIMON. Without getting the books?

Mr. CHAITE. Yes, sir.

Mr. SIMON. Didn't you think those books were important?

Mr. CHAITE. I would have loved to have had them, Mr. Counsel.

Mr. SIMON. Do you customarily buy a company without getting books?

Mr. CHAITE. I don't customarily buy companies.

The CHAIRMAN. Let me say this: Mr. Cassel has testified either today or in executive session, of course, that the \$10,000 he gave to Powell was put in the suspense account. We have been trying from you, Mr. Michaux, the elder here, and everybody concerned, to get the books to see if the \$10,000 is in the suspense account, and we can't find it.

Mr. CHAITE. I am sorry, Senator Capehart, I never saw——

The CHAIRMAN. You never saw the books?

Mr. CHAITE. No, sir.

Mr. SIMON. Going back to your memory, and hoping it is a little better today than it was on Saturday, can you tell me what you talked about in 1953 in the telephone calls that you had from Clyde Powell's hotel?

Mr. CHAITE. I don't remember talking with Mr. Powell at all on any of those calls that you asked me about.

Mr. SIMON. You still can't remember any of them?

Mr. CHAITE. I still can't.

Mr. SIMON. Are you prepared to say under oath that calls were never made?

Mr. CHAITE. I don't know about calls being made to me, sir. The only thing I can testify is about calls being received by me and conversations taking place.

Mr. SIMON. I am talking about calls being received by you. I have a record of five calls made from Mr. Powell's apartment to you in 1953, and I ask you if the calls were made, to tell me what they were about. If they weren't made, of course, you should deny them.

Mr. CHAITE. I know nothing about them, sir.

Mr. SIMON. You can't remember?

Mr. CHAITE. Absolutely not.

Mr. SIMON. Are you prepared to say under oath that Powell did not call you five times from his hotel in 1953?

Mr. CHAITE. How could I say that under oath. I am not responsible for what he could do.

Mr. SIMON. Are you prepared to say that Powell didn't once call you in 1953 and talk to you over the telephone from his hotel room?

Mr. CHAITE. I am prepared to say right now that I have no idea, no recollection of any calls made to me in 1953 by Mr. Powell from his hotel room.

Mr. SIMON. The records of the Wardman Park Hotel show five telephone calls from Powell's apartment to OLiver 2-8883, in the year 1953, which were completed. Is that your telephone number?

Mr. CHAITE. Yes, sir.

Mr. SIMON. Was it your telephone number throughout 1953?

Mr. CHAITE. Yes, sir.

Mr. SIMON. Do you deny that Clyde Powell called you five times during 1953 from his hotel room?

Mr. CHAITE. I deny that I have any knowledge of any of those calls.

The CHAIRMAN. Do you deny he called you once?

Mr. CHAITE. I deny I have any knowledge of that.

The CHAIRMAN. Same answer?

Mr. CHAITE. Yes, sir.

Mr. SIMON. In other words you are saying your memory is so poor that you can't recall as you sit here today whether Clyde Powell ever called you in 1953 at OLiver 2-8883?

Mr. CHAITE. That is right.

Mr. SIMON. That is your testimony?

Mr. CHAITE. That is right.

Mr. SIMON. You want that to stand?

Mr. CHAITE. Yes, sir.

Mr. SIMON. We have a number of further questions to ask you about the Woodner transaction.

The CHAIRMAN. We will do that tomorrow.

Mr. CHAITE. Tomorrow?

The CHAIRMAN. Yes.

Mr. SIMON. Tomorrow at 2 o'clock.

Mr. CHAITE. Thank you, gentlemen.

Mr. SIMON. Here are your books. We would like to know if you can tell us about the moneys you got from the church and the moneys you loaned to Cassel and Mayfair Gardens.

Mr. CHAITE. I don't deny any of the amounts that Mr. Cassel testified to because he is right.

Mr. SIMON. We are asking you to tell us from your books how much cash you got from the church, and how much cash you loaned and who you loaned it to.

Mr. CHAITE. Right.

The CHAIRMAN. If you will wait one minute, Elder, we would appreciate it.

While the gentleman is looking up the records one of the members of our staff would like to ask you a question.

Mr. DINKINS. Mr. Michaux, what is the present condition of business at Mayfair Mansions today?

Mr. MICHAUX. Since we took it over, the condition is 100 percent all right, but in the 4 years that Mr. Cassel managed it we went \$300,000 in debt, but now Walker & Dunlop is managing it and it is meeting all its obligations and taking care of itself properly.

Mr. DINKINS. Is it fully rented today?

Mr. MICHAUX. I guess we might have about 3 or 4 apartments vacant, but now it is going along perfect now.

Mr. DINKINS. It is a successful project today?

Mr. MICHAUX. Yes, sir.

The CHAIRMAN. It was well designed and well built?

Mr. MICHAUX. Well built and well designed.

The CHAIRMAN. Mr. Cassel, will you rise in your spot there? Mr. Michaux here has testified that you, as the executive vice president of the Mayfair Mansions never returned any money or paid any money back to the Gospel Association. Is that true? You sent up to the chairman a document which shows that at least on one occasion you paid them how much money?

Mr. CASSEL. \$13,000. That is not true. The statement we never paid back any money is not true.

The CHAIRMAN. You sent to the desk here a document in which it shows that at least one time you paid them \$13,000.

Mr. CASSEL. That is right.

The CHAIRMAN. You have paid back money?

Mr. CASSEL. Yes, sir.

Mr. SIMON. Mr. Cassel, where are the books of this company that will show this \$10,000 item that you have talked about?

Mr. CASSEL. The books of Mayfair Mansions from the day it began operations, July 31, 1945, should be in the rental office of Mayfair Mansions at 3819 J Street.

Mr. SIMON. Did you ever take them out of there?

Mr. CASSEL. I never took a book out. We left the books in the safe. That is where we left them.

Mr. SIMON. Were the books there when you sold your stock?

Mr. CASSEL. Yes, sir.

Mr. SIMON. Did they ever ask you for the books at the time you sold your stock?

Mr. CASSEL. There was nothing to ask for except the legal records which Mr. McGee had, the stock records, and he turned them over.

Mr. SIMON. Were the books that showed the rental income in the office?

Mr. CASSEL. From the very beginning, in their office at 3819 J; they were there when I left.

Mr. SIMON. You say those books show an item of \$10,000 in a suspense account?

Mr. CASSEL. That is right.

Mr. SIMON. It was never taken out of the suspense account?

Mr. CASSEL. Not that I know of.

The CHAIRMAN. Mr. Michaux, are you the president of the corporation?

Mr. MICHAUX. Yes, sir.

The CHAIRMAN. Then we are ordering you to deliver to this committee tomorrow, any time tomorrow, all the books of the Mansion and particularly the books—we want all the books, but we want you to show us the suspense account.

Mr. MICHAUX. He hasn't told you he occupies the office there, and without paying a dime, stays there right now, ever since. Nobody can get in there. You can't even call.

Mr. CASSEL. Mr. Chairman——

The CHAIRMAN. One at a time.

Mr. CASSEL. Mr. Chairman, when they say "the office," please understand that none of Mayfair Mansions' business was ever conducted from my architectural office which is 3922 Hays Street, none of it.

The CHAIRMAN. Where was it conducted from?

Mr. CASSEL. 3819 J Street, the address I gave you. We first began to operate at 2738 Hays Street in a storeroom; on July 4, 1946, we moved into 3819 J Street and conducted all of Mayfair Mansions' business there and that is where it is now, it has always been there. That is where the books are.

The CHAIRMAN. Gentleman, all we want are the facts.

Mr. CASSEL. The proof of it is ask any auditor who made the 6-month audit where he audited the books. They were always audited at 3819 J Street where the records were.

The CHAIRMAN. Mr. Michaux, you are the president.

Mr. MICHAUX. If they are there I will bring them. That is all I can say.

The CHAIRMAN. If they are not there——

Mr. MICHAUX. That is all I can say.

The CHAIRMAN. Bring us the books then.

Mr. MICHAUX. You have them, sir. I wish we could have gotten them long ago.

The CHAIRMAN. I guess we are finished with you, Mr. Michaux. Mr. Chaite, if you will return, please. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Chaite, I hold in my hand 6 canceled checks on the Liberty National Bank, each signed by you and apparently drawn on an account called Arthur M. Chaite, special, and each of these 6 checks is payable to the order of the Gospel Spreading Mission, or

the Gospel Spreading Mission Trust Fund, or the Gospel Spreading Association. Those checks are for \$930, \$660, \$1,362, \$1,000, \$5,000, and \$116,361, so it is a total of about \$125,000.

That I take it, represents the money you returned to the Gospel Spreading Association after the loans had been repaid; is that right?

Mr. CHAITE. That is right.

The CHAIRMAN. Who repaid the loans? Go ahead.

Mr. SIMON. That means you were repaid \$125,000 by whoever you had loaned their money to; is that right?

Mr. CHAITE. That is right.

Mr. SIMON. I have two checks here drawn on the same bank account by you to the order of Mayfair Mansions for \$13,000 and \$23,000 or a total of \$36,000.

Who did you loan the other \$90,000 to and where are the canceled checks for the other \$90,000?

Mr. CHAITE. The check of \$116,000 that you read off to me there was a reimbursement to Mayfair Mansions, to the Gospel Spreading, that is, for all the moneys that were due from the closing of the \$250,000 loans in Walter & Dunlop. A complete breakdown of that \$116,000 is available. If you want to see it, I will be glad to get it and bring it to you.

Mr. SIMON. No. What I would like is you told us you made 3 loans to Cassel, 1 of which was for \$40,000, 1 of which was for \$10,000, and you couldn't remember the other. I would like to see the canceled checks on those three loans.

Mr. CHAITE. The only canceled checks that I have available for you to look at are those that I brought with me at your request.

Mr. SIMON. Are you telling us now that the only two loans you ever made to either Cassel or the Mayfair Mansions are for \$13,000 and \$23,000?

Mr. CHAITE. No, I am not. I am just saying those are the only checks we have available to read from.

Mr. SIMON. Where are the other checks then?

Mr. CHAITE. I don't know.

Mr. SIMON. Were they drawn on your account?

Mr. CHAITE. I imagine so.

Mr. SIMON. What other account could they have been drawn on?

Mr. CHAITE. I don't know.

Mr. SIMON. You disbursed the money; didn't you?

Mr. CHAITE. Yes.

Mr. SIMON. Where are the checks?

Mr. CHAITE. Those are the only checks that I have.

Mr. SIMON. Where are the other checks?

Mr. CHAITE. What other checks are you talking about?

Mr. SIMON. On the remaining funds of the Gospel that you loaned.

Mr. CHAITE. I don't know where the checks are if there are checks. Those are the only ones we have in the file right now. We looked through them, one of the members of your staff and myself and those are the only ones we could find in relation to those transactions.

Mr. SIMON. You said a moment ago if I heard you correctly, that there were other loans that you made of the Gospel fund; is that right?

Mr. CHAITE. That is right.

Mr. SIMON. Where are the checks representing the loans?

Mr. CHAITE. I don't know.

Mr. SIMON. Who does know?

Mr. CHAITE. I don't know if anybody knows.

Mr. SIMON. What did you do with them?

Mr. CHAITE. Nothing.

Mr. SIMON. Didn't the bank return them to you?

Mr. CHAITE. They may have.

Mr. SIMON. Does your bank ever fail to return your canceled checks?

Mr. CHAITE. No.

Mr. SIMON. Then what did you do with them?

Mr. CHAITE. I did nothing with them; those are the only ones I could find, that a cursory examination we gave to the files yesterday, those are the only ones we could find.

The CHAIRMAN. You will be back as a witness tomorrow. In the meantime, we will see if our staff can find the check.

Mr. SIMON. Is it possible you never loaned the money, Mr. Chaite?

Mr. CHAITE. I never loaned it?

Mr. SIMON. Yes. Is it possible that these 2 checks represent the only 2 loans you ever made for the Gospel?

Mr. CHAITE. No. I am sure it was more because I heard Mr. Cassel testify as to the amount of money he borrowed from me.

Mr. SIMON. You are sure it is more?

Mr. CHAITE. Oh, yes.

Mr. SIMON. Where would those canceled checks be?

Mr. CHAITE. Maybe your staff will find them in my records.

Mr. SIMON. Is it possible you could find them in your records?

Mr. CHAITE. I will be glad to look for you.

Mr. SIMON. But you don't know whether you can find them?

Mr. CHAITE. No.

The CHAIRMAN. Did you say this check for \$116,361 made out to Gospel Spreading Association was to return to them moneys that the Mansions had borrowed from them?

Mr. CHAITE. Yes, sir.

The CHAIRMAN. Then this disproves the statement that the elder made a few moments ago that Mr. Cassel never paid back any of the money that was loaned to him, doesn't it?

Mr. CHAITE. I don't know anything about that.

The CHAIRMAN. You heard him testify to that?

Mr. CHAITE. I don't know whether it disproves it or not.

The CHAIRMAN. The \$116,000 is money that was given to you by the Mansion to pay to the Gosepel Spreading Association; is that correct?

Mr. CHAITE. Yes, sir.

The CHAIRMAN. Well then, Mr. Cassel as executive vice president of the Mansion did return some of the borrowed money to the Gospel; is that correct?

Mr. CHAITE. It may be.

The CHAIRMAN. It is, isn't it?

Mr. CHAITE. I don't know.

The CHAIRMAN. Isn't that what the \$116,000 check is for?

(No response.)

The CHAIRMAN. Thank you very much.

Mr. CHAITE. You are welcome.

The CHAIRMAN. We will extend your subpena until tomorrow.

Mr. SIMON. Two o'clock tomorrow and you bring with you—

Mr. CHAITE. Two o'clock?

Mr. SIMON. Yes, and you will bring with you the records to show all the moneys you received from Woodner or any of the Woodner enterprises.

Mr. CHAITE. I certainly will. Are you going to keep those?

Mr. SIMON. No. We will give them back to you and we will be grateful if you can find those other checks.

Mr. CHAITE. I will look for you.

The CHAIRMAN. Now our next witness will be Mr. Clyde Powell, and I would like to ask Mr. Powell's attorney if he feels that Mr. Powell's testimony will take 30 or 40 minutes to an hour or 2 hours or 3 hours? In other words, if Mr. Powell is going to testify, we will recess until 10 o'clock tomorrow morning and give him plenty of time to answer all these charges that are made against him here today. If he is not going to testify, if he is going to simply refuse to testify, we might as well do it now and have it over with.

Mr. MAHER. I think I can assure the chairman we will be out of here in 5 minutes.

The CHAIRMAN. All right. Suppose you come forward then. It is now 10 after 4. Mr. Powell, will you be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF CLYDE L. POWELL, ACCOMPANIED BY DANIEL J. MAHER, COUNSEL—Resumed**

Mr. POWELL. I do.

The CHAIRMAN. Thank you, sir. Please be seated and give your name and address to the reporter.

Mr. POWELL. My name is Clyde L. Powell. I live at 5314 Carvel Road, Westmoreland Hills, Md.

The CHAIRMAN. You may proceed.

Mr. MAHER. Mr. Chairman, may I state a preliminary objection to the conditions now existing in the hearing room?

The CHAIRMAN. What is your objection?

Mr. MAHER. No. 1, there are presently four photographers about to flash bulbs in the face of the witness.

The CHAIRMAN. Does your witness object to being photographed?

Mr. MAHER. He objects to being photographed.

The CHAIRMAN. Is that right, Mr. Witness?

Mr. POWELL. That is right.

The CHAIRMAN. One of the rules of the committee is if the witness refuses to be photographed the photographers will stand by. The photographers will please stand by.

Mr. MAHER. I object to 4 lights of 1,000 wattage being focused on the witness.

The CHAIRMAN. You object to that. In line with the policy of this committee we always like to make the witnesses comfortable. We will dispense with the lights.

You can focus the lights on the committee if you care to. Do not focus them on the witness.

Mr. MAHER. I object to the operation of movie cameras and television cameras in the presence of the witness while he is on the stand.

The CHAIRMAN. Is that your wish, Mr. Witness?

Mr. POWELL. Yes, sir.

The CHAIRMAN. Then the photographers and the cameras will desist.

Mr. MAHER. Did I understand the order of the chairman that the photographers were to stand aside?

The CHAIRMAN. I think you had better get a little to the right so we can see. We want to be perfectly fair to this witness.

You may turn the lights on everybody in this room other than the witness. You can take down everything that is said as long as you do not turn the lights on the witness and the cameras on the witness.

Mr. MAHER. Mr. Chairman, this witness is under subpoena before this committee for Thursday morning at 10 a. m. One subpoena was issued calling for his appearance on Thursday morning.

Mr. SIMON. The second subpoena for today was intended to supercede the subpoena for Thursday.

Mr. MAHER. It is my understanding the witness will be relieved from the compulsion of the process requiring his appearance before this committee?

Mr. SIMON. When the chairman excuses him, if that be today or tomorrow. It is not intended he return at a future date.

Mr. MAHER. May I also state this, that to avoid any possible conflict between this committee and a grand jury now sitting in the District of Columbia, that this witness has been subpoenaed to appear before a grand jury at 10 a. m. tomorrow morning. He must be there. Therefore, may I respectfully request that the witness be excused from appearing here tomorrow.

The CHAIRMAN. We will continue with the witness then until we have finished with him. If the witness wishes to talk and tell us—if he wants to answer all these charges we will go right on through with his testimony today. Let's proceed.

Mr. MAHER. May the record also show the photographers are still before the witness and there are presently four high wattage lamps.

The CHAIRMAN. Will you please move over? The lights are not focused upon the witness. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Powell, on October 1, 195— I am sorry, on October 1, 1947, in Chicago, Ill., you sent to the Riggs National Bank in Washington, a money order with directions to deposit to the account of Clyde L. Powell in the Riggs National Bank, the proceeds of the money order, which was \$8,000.

Where did you get the \$8,000?

Mr. POWELL. I respectfully refuse to answer. My refusal is based on my constitutional protection against being compelled to be a witness against myself.

Mr. SIMON. On February 3, 1949, you transmitted to yourself from New York—I am sorry, from Los Angeles—\$1,500 by Western Union money order. Where did you get the \$1,500?

Mr. POWELL. Same answer.

Mr. SIMON. On August 26, 1947, you transmitted to yourself from New York \$1,000. Where did you get the money?

Mr. POWELL. Same answer.

Mr. SIMON. On April 13, 1954, the day your employment with the Federal Housing Administration terminated, and the President an-

nounced what has since been referred to in the newspapers as the housing scandals, you made an entry to your safety deposit box in the Riggs National Bank.

What did you put in or take out of the box at that time?

Mr. POWELL. Same answer, sir.

The CHAIRMAN. Mr. Powell, let me ask you this question: You have been objecting through your attorney that there never been any direct allegations against you. You have been here in this room all day and you have listened. Why do you object to answering those charges or telling us whether they are or are not true?

Mr. POWELL. Same answer, Senator.

The CHAIRMAN. In other words, you are going to refuse to answer any questions?

Mr. POWELL. The answer remains the same.

Mr. SIMON. Mr. Powell, on December 21, 1953, which is just 10 months ago, you purchased two cashier's checks at the Riggs National Bank in the amounts of \$5,000 and \$6,000 respectively, payable to the order of W. C. & A. N. Miller Development Co. for the purchase of a lot in Spring Valley. Where did you get the \$11,000?

Mr. POWELL. The answer remains the same, counsel.

Mr. SIMON. If I asked further questions with respect to your financial transactions during the past 8-year period, will your answer in each case be the same?

Mr. POWELL. My answer remains the same.

The CHAIRMAN. If we ask you questions about your operation as the head of the Rental Division of FHA, over a period of many, many years, will your answer be the same?

Mr. POWELL. It remains the same, Senator.

The CHAIRMAN. In other words, regardless of how simple the question might be, your answer would be the same?

Mr. POWELL. It remains the same.

The CHAIRMAN. I see nothing further.

Mr. SIMON. Would that also apply, Mr. Powell, to the subject matter of the long distance telephone calls you made from the Wardman Park Hotel?

Mr. POWELL. My answer would remain the same.

The CHAIRMAN. I see nothing further to be gained by going on with this witness. He certainly has a right to answer as he has under the Constitution of the United States. He certainly has a legal right to do it. I have repeatedly said I think you are making a mistake, but that is your business, not ours. I wish you would be helpful to us in this whole matter.

It is now 20 minutes after 4. We will excuse you from your subpena.

Mr. MAHER. It is my understanding, Mr. Chairman, that this witness is finally excused?

The CHAIRMAN. He is excused from the present subpena.

Mr. MAHER. And also from the subpena calling for his appearance on Thursday morning?

The CHAIRMAN. Yes, sir. We may subpoena him later, but he is excused at the moment from any and all subpoenas that may be out against him.

We are going to call Mr. Kaskell. If we can get through with Mr. Kaskell in at least 20 or 25 minutes, we will not ask him to return tomorrow.

Mr. JUDD. Thank you very much, Mr. Chairman.

The CHAIRMAN. If you will come forward, Mr. Kaskell, we will try to finish with you today. If you will help matters by saying "yes" and "no" we will get through. Will you please be sworn.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF ALFRED KASKELL, FARRAGUT GARDENS, BROOKLYN, N. Y., ETC., ACCOMPANIED BY ORRIN G. JUDD, COUNSEL, AND SAMUEL GREENBERG, ACCOUNTANT**

Mr. KASKELL. Yes, sir.

Mr. JUDD. Mr. Chairman, I don't think there is the same interest in Mr. Kaskell as there may be in other witnesses. I wonder if it is possible to turn out these lights. It is a little disconcerting.

The CHAIRMAN. Is it the wish of the witness there be no photography or no television; that you not be personally televised? Is that your wish?

Mr. KASKELL. Yes, sir.

The CHAIRMAN. Then the photographers and television people will please keep their cameras off the witness. They may televise anything else in the room, or the committee, or anybody other than the witnesses themselves. Of course, they may take down anything that is said.

You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Kaskell, are you a builder in New York?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Have you built a number of section 608 projects, or had them built for you?

Mr. KASKELL. Yes, sir.

Mr. SIMON. They totaled about \$34 million?

Mr. KASKELL. Approximately \$34 million.

Mr. SIMON. In all of those transactions, was Abraham Traub your lawyer?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Can you tell the committee why it was frequently necessary for you to borrow large sums of money from Mr. Traub?

Mr. KASKELL. I didn't borrow large sums of money from Mr. Traub.

Mr. SIMON. You didn't?

Mr. KASKELL. No; Mr. Simon. To start out with, in 1949—

Mr. SIMON. Let me ask you this: On January 8, 1951, did you borrow \$40,000 from him?

Mr. KASKELL. Well, in 1949 I will give you the answer. He owed me \$100,000.

Mr. SIMON. On January 8, 1951, did you borrow \$40,000 from him?

Mr. KASKELL. Yes. He gave back \$40,000.

Mr. SIMON. He gave you back \$40,000?

Mr. KASKELL. That is correct. He owed me \$100,000.

Mr. SIMON. Your auditor furnished us with an explanation of \$1,079,000 worth of transactions between you and Traub, and opposite the January 8, 1951, entry of a check for \$40,000 from Mr. Traub to you, your auditor has written in: "This is a loan to Alfred L. Kaskell." Is that wrong?

Mr. KASKELL. Yes; probably so.

Mr. SIMON. Is it right or wrong?

Mr. KASKELL. You could interpret it any way you want.

Mr. SIMON. I am not trying to interpret it at all. I am asking you if that statement is wrong.

Mr. KASKELL. I will give you the answer on it. I had with Mr. Traub a running account for years. I used to give him a certain amount of money and he used to give me, and from time to time we used to check our accounts.

Mr. SIMON. I am asking you if this check of January 8, 1951, for \$40,000, represents a loan?

Mr. KASKELL. Yes. It appears on my records as a loan.

Mr. SIMON. You made a loan from him?

Mr. KASKELL. What is it?

Mr. SIMON. You made a loan from him; is that right?

Mr. KASKELL. I gave you that answer. That was part of the loan, a part of the running account which I had with Mr. Traub.

Mr. SIMON. Is the statement that it was a loan a false statement?

Mr. KASKELL. No; it is not. I told you you could interpret it any way you want.

Mr. SIMON. I am not trying to interpret it. I am trying to find out what happened.

Mr. KASKELL. I am trying to explain what happened if you would just bear with me for a minute, is this: Mr. Traub, from 1949, starting from scratch, let's assume, owed me \$100,000. After 1949, from time to time, he used to give me part of the money, part I would give him back and he used to give me a certain amount of money from time to time. You will find many times I gave him money. In fact, you will find on this same statement that I gave him at one transaction, he closed loans for me, of approximately \$150,000, which he took the money to lay out against my accounts.

Mr. SIMON. Now I ask you whether on January 8, 1951, Traub loaned you \$40,000?

Mr. KASKELL. All these years, whatever you say, whatever it appears, as I said, you can interpret it any way you want. You can interpret it as a loan, interpret it as a part payment.

Mr. SIMON. I ask you whether Traub loaned you \$40,000 on January 8, 1951?

Mr. KASKELL. Whatever the books show, I assume that would be, but however as I say you can interpret it any way you want. In my own mind you could interpret it either way between either a loan or an exchange.

The CHAIRMAN. Did you give him a note for it?

Mr. KASKELL. No. He owed me money at the time.

Mr. SIMON. How much money did Traub owe you on January 8, 1951?

Mr. KASKELL. I don't know how much money he loaned me.

Mr. SIMON. Owed you.

Mr. KASKELL. Owed me—I don't know, but he would owe me a very substantial amount.

Mr. SIMON. How much?

Mr. KASKELL. I don't know.

Mr. SIMON. Half a million dollars?

Mr. KASKELL. No.

Mr. SIMON. A quarter of a million dollars?

Mr. KASKELL. No.

Mr. SIMON. A hundred thousand dollars?

Mr. KASKELL. Less than a hundred, because—

Mr. SIMON. \$50,000?

Mr. KASKELL. No. At 1949, if he owed me \$100,000, so eventually he gave me back part of the money.

Mr. SIMON. How much did he owe you on January 8, 1951?

Mr. KASKELL. I don't know. I couldn't tell you that.

Mr. SIMON. Was it more or less than \$40,000?

Mr. KASKELL. I couldn't tell you. I couldn't answer you that.

Mr. SIMON. I ask you once more: On January 8, 1951, did you borrow \$40,000 from Traub?

Mr. KASKELL. I could only give you the same answer. As far as I and Traub are concerned, he owed me \$100,000 and this money, I don't know how they would put it down in the books; whether part he paid or as a loan it wouldn't make any difference.

Mr. SIMON. Mr. Kaskell, do you know whether you borrowed \$40,000 from Traub on January 8, 1951?

Mr. KASKELL. My books show that it is \$40,000 received from Traub on that day.

Mr. SIMON. Was that a loan to you from Traub?

Mr. KASKELL. Mr. Simon, four times I told you. Exactly, I can't tell you anything different than I told you.

Mr. SIMON. What did you tell me?

Mr. KASKELL. I told you that Traub owed me \$100,000 in 1949.

Mr. SIMON. How much did he owe you in 1951?

Mr. KASKELL. I don't know, but a very substantial amount; less than \$100,000.

Mr. SIMON. Was it more than \$40,000?

Mr. KASKELL. Maybe.

Mr. SIMON. Was it less than \$40,000?

Mr. KASKELL. I don't know.

Mr. SIMON. You don't know whether it was more or less than \$40,000; is that right?

Mr. KASKELL. I know it was less than \$100,000.

Mr. SIMON. Do you know whether it was less than \$40,000?

Mr. KASKELL. No, I don't.

Mr. SIMON. How can you tell me that the \$40,000 he paid you on January 8 could be a partial repayment of a loan?

Mr. KASKELL. I didn't say he owed me less than \$40,000.

Mr. SIMON. You said it might be.

Mr. KASKELL. It might be.

Mr. SIMON. On January 4, 1951, did you borrow \$20,000 from Traub?

Mr. KASKELL. Whatever it appears on my records, whatever you have got there, that is the answer.

Mr. SIMON. I asked you whether—

The CHAIRMAN. Who is the gentleman on your left?

Mr. KASKELL. My accountant. He knows more about these figures than I do.

The CHAIRMAN. Did he borrow \$40,000 or \$20,000?

Mr. GREENBERG. This is really a loan and exchange account. As I explained to Mr. Simon only last week, that——

The CHAIRMAN. We have asked you again today.

Mr. GREENBERG. I know. On the record of Alfred Kaskell these amounts appear as a credit, as money received from Dryer and Traub. We are not doubting the fact that Mr. Kaskell received it, but at the same time you will find in Mr. Traub's records moneys of over the sums of over a million dollars that Mr. Simon has just brought out.

Mr. SIMON. \$1,079,000, and nobody seems to know what it was for.

Mr. GREENBERG. You check our receipts. Our books reflect whatever it is. If Mr. Alfred Kaskell would make personal loans, we have 80 to 90 corporations. They would reflect insofar as our corporations are concerned.

The CHAIRMAN. You have 80 or 90 corporations?

Mr. GREENBERG. Yes.

The CHAIRMAN. FHA business?

Mr. GREENBERG. No; mostly conventional.

The CHAIRMAN. You understand Mr. Traub has over a million dollars' worth of checks that he wrote out to cash that we are trying——

Mr. KASKELL. Not to me. I am trying to help you——

The CHAIRMAN. Here we find you were over a million dollars back and forth between Mr. Traub and yourself, and Mr. Traub having written out over a million dollars' worth of checks in cash, and he can't explain to this committee or hasn't yet the purpose of the checks.

Mr. KASKELL. Senator, I want you to believe me; I am here to help you. I am trying to tell you to the best of my ability as follows: First, this here money, a trifle of this amount has anything to do with the FHA. The other has nothing to do with FHA whatsoever.

The CHAIRMAN. Your answer is, then, that he owed you money and you owed him money?

Mr. KASKELL. That is right.

The CHAIRMAN. And over a million dollars went back and forth?

Mr. KASKELL. It is not a million dollars actually. It may be 50 or 75 thousand. In other words, if I would give him today \$75,000, he would give it back to me, a week later I take \$40,000, and 2 weeks later give him back \$40,000. It sounds like a lot of money.

The CHAIRMAN. What was the reason for doing it that way?

Mr. KASKELL. All the purchase of my land, and other things, in the building line, ran into millions and millions of dollars, and he was my attorney, and he went out. I never went along to any contract; very seldom, let's say, I went along and he went along and he paid out moneys. At the same time he collected money. There is one deal there, Senator, he went out without me and collected on the same statement \$160,000, and the checks were made out to Dryer and Traub.

Mr. SIMON. Mr. Kaskell, on March 27, 1952, Traub gave you a check for \$15,000, and on that day, Carroll Management Corp. gave Dryer and Traub a note for \$15,000.

What was that transaction?

Mr. KASKELL. I don't know. Maybe we needed money and gave them a note for it to get the money.

Mr. SIMON. Who owns Carroll Management Corp.?

Mr. KASKELL. I do.

Mr. SIMON. Why would Traub be giving you personally a check for \$15,000 and taking a note from Carroll Management?

Mr. KASKELL. I don't know what difference it would make. I own the Carroll Management by myself.

The CHAIRMAN. Maybe your accountant can explain it. Can you?

Mr. GREENBERG. Well, this is no more different than any other item that happened in the last 15 years. Mr. Dryer and Traub took a note from Carroll Management. Carroll Management is the management corporation that manages over 40 corporations, which are conventional, and moneys are needed for interest, taxes, or amortization, whatever they may be, and any time Mr. Kaskell feels it necessary that he needs money that particular day, he found that these transactions with Dryer and Traub was comfortable for him, let's put it that way, and he made these exchanges, that is all. Some ran 2 days, some ran a week, some ran a month, some ran 2 months.

Mr. SIMON. Are you telling us, Mr. Kaskell, that you were borrowing large sums of money from Traub?

Mr. KASKELL. I didn't say large sums. What do you call large sums, \$15,000?

Mr. SIMON. I would call that a large sum.

Mr. KASKELL. No. To me it is a very trivial sum.

Mr. SIMON. Well, you——

The CHAIRMAN. We have found that to be pretty much the pattern among the section 608 builders.

Mr. KASKELL. Not the section 608's. The section 608's was part of my business and I build \$35 million in the last few years. I think \$10,000, \$15,000 even \$100,000——

Mr. SIMON. Is peanuts?

Mr. KASKELL. I say even \$100,000 is a small amount; when you are talking about \$35 million.

Mr. SIMON. I have here loans that you made from Traub, March 25, \$5,000, March 15, \$15,000. Was that money you were borrowing from Traub?

Mr. GREENBERG. What was that date, March 25?

Are you referring to \$5,053.82?

Mr. SIMON. That is right.

Mr. KASKELL. You can answer that.

Mr. SIMON. I asked you if you borrowed that money from Mr. Traub.

Mr. KASKELL. No. I didn't borrow that. He paid me for some closing, five-thousand-some-odd dollars. It is not an even amount; is it?

Mr. GREENBERG. No; it looks like payment of a note where he advanced for the Carroll Management Corp.

Mr. SIMON. This \$15,000 on March 27, was that loan you made from Traub?

Mr. GREENBERG. That is the one you spoke about before, Mr. Simon, the same discounted note.

Mr. SIMON. Did you borrow that money from him?

Mr. KASKELL. If it shows on the books, I got it.

Mr. SIMON. Did you?

Mr. KASKELL. If it shows on the books, I got it.

Mr. SIMON. I don't know. I am merely asking.

Mr. KASKELL. Whatever the books show is correct. I don't know. We have a complete set of books.

Mr. SIMON. I am asking you whether you borrowed \$15,000 from Traub on March 27, 1952?

Mr. KASKELL. According to the books, if it shows I borrowed the money, I did.

Mr. SIMON. But you don't actually know whether you did or not; is that right?

Mr. KASKELL. I don't remember. We have a complete set of books.

Mr. SIMON. This sheet of paper I have says that on September 3, 1952, Traub gave you a check for \$35,000, and you gave him cash of \$35,000. You gave him a check for the same amount.

Mr. GREENBERG. Not cash.

Mr. SIMON. What is the reason for that?

Mr. KASKELL. There may be cases—

Mr. SIMON. A round figure of \$35,000, he gave you a check and you gave him a check.

Mr. KASKELL. Yes. In many cases, probably in a case like this, I don't know, he probably needed a certified check. He would get me a certified check and I would give him a plain check.

Mr. SIMON. On December 10 and 12, on each day, Traub gave you checks for \$25,000.

Mr. KASKELL. Mr. Simon, all these here, whatever I can tell you, I can only look at these records and give you the answer exactly what the records show. I can't tell you any more or any less. Mr. Greenberg is here and this is his handwriting, I think. He can give you the exact answer and I will verify it.

The CHAIRMAN. Mr. Greenberg, what were the checks for?

Mr. GREENBERG. What one are you referring to?

Mr. SIMON. What did Mr. Kaskell do with the \$25,000 he got from Traub on December 10 and the 25 he got on December 12, 1951?

Mr. GREENBERG. You are going back now. On December 10—when you ask that question, what we did with it, it is not the same question when you read from the statement that I submitted to you, because your request was from that statement, how it appeared on our books.

I can't tell you what Mr. Kaskell does anything personally with any of the sums that he would collect, but this amount was deposited to his account under Alfred Kaskell.

Mr. SIMON. That is what I assume.

Mr. GREENBERG. When you ask what he did, I can't be a magician, what he did with it.

Mr. SIMON. I assumed he would be the one to know. That is why I asked him the question.

Mr. GREENBERG. I can't see how he can explain any of these items which are reflected in our books. I will say this: Every one of these items that I presented to you are reflected in the affiliated corporation books of Carroll Management or Alfred Kaskell or his personal assets.

Mr. SIMON. I assume it is your testimony you don't know anything about the items except as you took them off the books?

Mr. GREENBERG. No, with this exception: That the loans and exchanges that appear as you requested from me appear on the books of

Alfred Kaskell and/or his affiliated corporations, and there is a distinction there to the extent as to what he did with the money. As long as the money was deposited, I am finished.

Mr. SIMON. I assumed that. Therefore, I asked Mr. Kaskell what happened to the \$25,000 he got from Traub on December 10, 1951, and the \$25,000 he got on December 12, 1951.

Mr. KASKELL. I must have deposited it to my account.

Mr. SIMON. Do you know what the purpose of that money was for?

Mr. KASKELL. I—

Mr. GREENBERG. Mr. Simon, I would like to clarify your statement of what he did with the money. You submitted to me a list, and on December 10, 1951, you marked your check number, or Dryer and check number, 5474, and you put down Metropolitan Industrial "K" Exchange. That is your typewritten report to my office.

Now, when you ask Mr. Kaskell what he did with it, Mr. Kaskell advanced back to Dryer and Traub for the advancement that Dryer and Traub made for Alfred Kaskell. Therefore, it only appears as an exchange. He didn't do anything with it.

Mr. SIMON. I am asking Mr. Kaskell the purpose for which he got \$25,000 from Traub on December 10 and \$25,000 on December 12, 1951.

Mr. KASKELL. Mr. Simon, I don't know—

The CHAIRMAN. Can you remember whether it was a loan?

Mr. GREENBERG. Exchange.

Mr. KASKELL. It was an exchange.

The CHAIRMAN. Exchange of checks, you mean?

Mr. KASKELL. Yes. Without the books, I didn't gamble with the money.

Mr. SIMON. Were you kiting checks?

Mr. KASKELL. No.

Mr. SIMON. What was the purpose?

Mr. KASKELL. If I would kite I wouldn't need Traub. The exchange was when Traub had the money he gave it to me; if I had the money I gave it to him.

Mr. SIMON. What was the purpose of these two \$25,000 checks?

Mr. KASKELL. It is a very simple answer. Many times, let's assume we needed the next day or the following day—

Mr. SIMON. Let's not assume anything. What was the purpose of these checks?

Mr. KASKELL. I don't know exactly what happened. I can tell you this, and customarily it would be this: If I would, let's assume, need \$100,000 and I would have in my own accounts, let's say, \$75,000 or \$50,000, the balance I would go over to Traub, for business, for some new contacts or whatever the reason would be, I would go to Dryer and Traub and say, "Here is \$50,000 on account and you go out and close that deal," and he did. Then automatically I would owe him \$50,000.

Mr. SIMON. Were you borrowing money from him?

Mr. KASKELL. In some cases, probably, yes. It all depends, as I said. Maybe the \$100,000 was still involved there which he owed me.

Mr. SIMON. What I am trying to find out from you is whether these records indicate that Traub was in part financing your operations?

Mr. KASKELL. No; he was not.

Mr. SIMON. He wasn't?

Mr. KASKELL. No.

Mr. SIMON. What was the purpose of his giving you these sums of money?

Mr. KASKELL. I am telling you it wasn't a question of giving it to me. Most of the time, he didn't give it to me. He went out to buy certain land for me, whatever it was, and he laid the money out for me.

Mr. SIMON. Let's get back to my basic question that we have spent so much time on. Did Traub give you \$25,000 on December 10, and \$25,000 on December 12, 1951?

Mr. KASKELL. According to our books it shows that Traub gave us \$50,000.

Mr. SIMON. Gave "us" or gave "you?"

Mr. KASKELL. Carroll Management.

Mr. SIMON. Weren't Traub's checks payable to A. L. Kaskell?

Mr. KASKELL. Yes; it was.

Mr. SIMON. Aren't you A. L. Kaskell?

Mr. KASKELL. Yes; I am.

Mr. SIMON. Therefore, didn't Traub give you \$25,000 on each of those 2 days?

Mr. KASKELL. According to the books what you say he did and I gave it to him back the next day.

Mr. SIMON. Not according to what I say. I know nothing about this.

Mr. KASKELL. According to the books it is marked that he gave me \$50,000.

Mr. SIMON. What was the \$50,000 for?

Mr. KASKELL. I don't know. I gave it to him back 2 days later.

Mr. SIMON. You didn't. Carroll Management did.

Mr. KASKELL. I am a hundred percent stockholder in Carroll Management.

Mr. SIMON. I would like to know why Traub gave you \$50,000 and 2 days later a corporation paid him back?

Mr. KASKELL. I will tell you, Mr. Simon: The fact remains this: These questions, my own estimation, I don't think are fair because at that time——

Mr. SIMON. Forgetting whether they are fair or not——

Mr. KASKELL. At that time he might have owed me money.

Mr. SIMON. Will you tell me what the \$40,000 was for?

Mr. GREENBERG. One of them did go to Carroll Management. You said both of them went to Alfred Kaskell, and they did not. Check 25,000 was deposited to Carroll Management Corp., and Carroll Management next day returned that check.

Mr. SIMON. Wasn't that check made out to Kaskell?

Mr. GREENBERG. No, sir. That was made out to Carroll Management Corp.

Mr. SIMON. The paper I have in front of me, on the paper of Greenberg & Fishman, says check 5510 was payable to A. L. Kaskell.

Mr. GREENBERG. I treat "ALK" and Carroll Management the same, because "ALK" is the same.

Mr. SIMON. I ask you if the sheet I hold in front of me on the paper of Greenberg & Fishman doesn't say check 5510 was payable to A. L. Kaskell?

Mr. GREENBERG. That may be so.

Mr. SIMON. Does it?

The CHAIRMAN. Is it so or not?

Mr. GREENBERG. I don't have the copy. You took two of my copies away.

The CHAIRMAN. It looks to me like we are not going to be able to finish. We are getting a little tired. I was hopeful we would finish. You gentlemen either don't know, don't want to answer——

Mr. GREENBERG. No, Senator, we do want to answer, but these are very simple.

The CHAIRMAN. We tried to accommodate you by having you here. Your own paper says "A. L. Kaskell" and you must have known it.

Mr. GREENBERG. I have here the exact endorsement of that check.

The CHAIRMAN. In New York the other day I wasn't present. Senator Bush was present. This gentleman deliberately goes off to some place and leaves us at 3 o'clock. I think what we will do is recess until 10 o'clock tomorrow morning. We will listen to you as a witness. I don't know whether we will listen to you tomorrow, Thursday, or Friday. I am tired of getting pushed around and getting no answers. You either know or don't know, and if you don't know, why don't you say so?

Mr. KASKELL. Senator, what these books show——

The CHAIRMAN. Again I want to repeat this; we are suspicious of Mr. Traub. He wrote out a million dollars' worth of checks to cash and he cannot explain the purpose.

Mr. KASKELL. They are not cash to me.

The CHAIRMAN. You have over a million dollars of transactions back and forth with him during the same time. We would just like to clear the mud and get the facts.

Mr. KASKELL. They are checks; there is no cash as far as I am concerned.

The CHAIRMAN. I didn't say there was. I said we would like to get the answers. Why would you on December 11 get two \$25,000 checks and 2 days later in the name of another corporation pay them back?

Mr. KASKELL. It is the same thing, Alfred Kaskell, and me, is the same thing. Maybe I took the money for Carroll Management or Carroll Management would take it from me. I am the full stockholder of Carroll Management, Senator. It is my corporation. I owned that corporation for over 20 years.

Mr. JUDD. Senator, we have been asked about these in private hearings.

The CHAIRMAN. We appreciate that.

Mr. JUDD. We have given all the information.

The CHAIRMAN. We never have a witness in public hearing until we have heard them in private.

Mr. JUDD. We have given all the information we can about them.

The CHAIRMAN. That is why we know so much about your business. That is why we want to ask these questions in public. The public is entitled to know these things as well as a few Senators in executive session.

Mr. JUDD. We don't question that. The only thing is, Mr. Chairman, that these checks that show in Traub's books, according to our

document that we put in evidence, were received by Mr. Kaskell for various corporations which he controlled, and they have all been repaid.

To determine which corporation or what use was made of each particular check we were not asked and that is what Mr. Kaskell can't tell you at the present time.

The CHAIRMAN. He doesn't remember a single one of them.

Mr. GREENBERG. Yes, we do. We have the first two items.

Mr. JUDD. He has to rely on the books.

Mr. GREENBERG. The first two items he deposited \$160,000 which Dryer & Traub took for a proceeding after closing and from the closing it was requested to pay out \$105,000 which represented purchase of Hunter Gardens. The rest was requested of Dryer & Traub to give a check to Mr. Kaskell.

The CHAIRMAN. We are going to recess until 10 o'clock tomorrow morning, and you will be the first witness. Let's get the facts with "yes" and "no" answers and quit trying "I don't know."

We will recess until 10 o'clock tomorrow morning. You will be the first witness.

(Whereupon, at 4:45 p. m., the committee recessed until 10 a. m., Wednesday, October 6, 1954.)



## FHA INVESTIGATION

WEDNESDAY, OCTOBER 6, 1954

UNITED STATES SENATE,  
BANKING AND CURRENCY COMMITTEE,  
Washington, D. C.

The committee met, pursuant to recess at 10 a. m., Senator Homer E. Capehart, chairman, presiding.

Present: Senator Capehart.

Also present: William Simon, general counsel; T. T. Kenney, assistant general counsel; and Clarence M. Dinkins, assistant counsel, FHA investigation.

The CHAIRMAN. Is Mr. Ben Cohen present this morning?

(No response.)

The CHAIRMAN. Fred Schneider?

Mr. SCHNEIDER. Here.

The CHAIRMAN. Herbert Glassman?

Mr. GLASSMAN. Here.

The CHAIRMAN. William Magazine?

Mr. MAGAZINE. Here.

The CHAIRMAN. Arthur M. Chaite?

(No response.)

The CHAIRMAN. Mr. Woodner isn't here, of course.

Marshall Granger isn't here?

(No response.)

The CHAIRMAN. Jack Ferman or Fred Landau, they are not here.

The committee will please come to order. Our first witness this morning will be Mr. Kaskell. Inasmuch as this is a continuation of your testimony of yesterday, it will not be necessary to swear you in at this time. Just proceed with the questions.

Mr. JUDD. Can we have the same policy today, that there will be no picture taking during the testimony? We are perfectly willing to have pictures taken afterward.

The CHAIRMAN. If that is the wishes of the witness—

Mr. KASKELL. Yes, sir.

The CHAIRMAN. There will be no photographs taken while you are sitting in the witness chair. Then I will ask the photographers to observe that, please.

You may proceed, Mr. Counsel.

**TESTIMONY OF ALFRED KASKELL, FARRAGUT GARDENS, BROOKLYN, N. Y., ETC., ACCOMPANIED BY ORRIN G. JUDD., COUNSEL, AND SAMUEL GREENBERG, ACCOUNTANT—Resumed**

Mr. SIMON. Mr. Kaskell, are you one of the principals in Howard Terrace?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Where is Howard Terrace located?

Mr. KASKELL. Sixty-sixth Road and Queens Boulevard, Forest Hills, Long Island.

Mr. SIMON. What is the name of the corporation that owns the property?

Mr. KASKELL. Howard Terrace, Inc.

Mr. SIMON. Howard Terrace, Inc. What is the capital stock of Howard Terrace, Inc.?

Mr. GREENBERG. We believe it is the nominal amount. I believe a thousand dollars.

Mr. SIMON. Does Mr. Kaskell know what the stock is?

Mr. KASKELL. If Mr. Greenberg tells me so, he is the accountant. He knows.

Mr. SIMON. Do you know?

Mr. KASKELL. After he tells me I know.

Mr. SIMON. What is the capital stock?

Mr. KASKELL. Mr. Greenberg said it is a thousand dollars. Then it is a thousand dollars.

Mr. SIMON. Who are the stockholders?

Mr. KASKELL. I am the sole stockholder.

Mr. SIMON. You own all the stock?

Mr. KASKELL. Yes.

Mr. SIMON. Did you pay a thousand dollars for the stock?

Mr. KASKELL. Yes, sir.

Mr. SIMON. What is the amount of the FHA insured mortgage?

Mr. KASKELL. \$4,112,000.

Mr. SIMON. What was the premium you received on the sale of the mortgage?

Mr. KASKELL. \$143,580.

Mr. SIMON. Is that built on leased land?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Ninety-nine-year lease?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Who owns the land the building is built on?

Mr. KASKELL. I do.

Mr. SIMON. You personally or a corporation that you own?

Mr. KASKELL. Personally, I do.

Mr. SIMON. You personally own it?

Mr. KASKELL. Yes, sir.

Mr. SIMON. How much did you pay for the land?

Mr. KASKELL. \$328,000.

Mr. SIMON. Do you have a mortgage on the land?

Mr. KASKELL. Yes, sir.

Mr. SIMON. What is the amount of the mortgage on the land?

Mr. KASKELL. \$381,000.

Mr. SIMON. Or \$53,000 more than you paid for it?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Who constructed Howard Terrace?

Mr. KASKELL. Doral Construction Co.

Mr. SIMON. Doral Construction?

Mr. KASKELL. Yes.

Mr. SIMON. Who is the owner of Doral Construction Co.?

Mr. KASKELL. I am.

Mr. SIMON. Sole stockholder?

Mr. KASKELL. Yes, sir.

Mr. SIMON. What was the cost of construction to Doral Construction Co.?

Mr. KASKELL. \$4,089,453 and some change.

Mr. SIMON. Is that the total cost?

Mr. KASKELL. This is the total cost, reducing the premium. In other words, the premium we took as part of the cost.

Mr. SIMON. You mean you took the premium to reduce the cost?

Mr. KASKELL. Yes. In other words, we wouldn't have gotten the premium; if not, the construction would have cost about \$4,200,000.

Mr. SIMON. Is that the actual cost?

Mr. KASKELL. That is not only the actual. There was no builders' fees, there was no salaries.

Mr. SIMON. All I asked you, Mr. Kaskell, is what you actually paid out. What was the actual cost to build the buildings?

Mr. KASKELL. \$4,225,000.

Mr. SIMON. Does that include every cost that you paid to anybody?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Does it include anything you paid yourself?

Mr. KASKELL. I did not pay anything to myself.

Mr. SIMON. What is the ground rent?

Mr. KASKELL. \$16,960.

Mr. SIMON. And the building has to pay you that for 99 years each year?

Mr. KASKELL. I owe money against that. The building has to pay.

Mr. SIMON. That ground rent is ahead of the FHA mortgage?

Mr. KASKELL. That is correct.

Mr. SIMON. Next is Cedar Construction, is that right?

Mr. KASKELL. Yes.

Mr. SIMON. What is the name of that project?

Mr. KASKELL. Cedar—I think Cedar Construction, something along Cedar.

Mr. SIMON. What is the name of the building?

Mr. KASKELL. I think it is Cedar Gardens or something like that.

Mr. SIMON. You don't know for sure?

Mr. KASKELL. It is Cedar. I don't know if it is gardens or houses.

Mr. SIMON. What is the capital stock of that company?

Mr. KASKELL. The same as Howard.

Mr. SIMON. What is that?

Mr. KASKELL. \$1,000.

Mr. SIMON. Who are the stockholders?

Mr. KASKELL. I am.

Mr. SIMON. Sole stockholder?

Mr. KASKELL. Yes, sir.

Mr. SIMON. What is the amount of the mortgage there?

Mr. KASKELL. \$1,322,000.

Mr. SIMON. \$900?

Mr. KASKELL. Yes, sir.

Mr. SIMON. What was the premium?

Mr. KASKELL. \$48,200, I think—\$48,286.75.

Mr. SIMON. Is that built on leased land?

Mr. KASKELL. Yes, sir.

Mr. SIMON. There you have a mortgage on the land for \$11,000 less than you paid for it?

Mr. KASKELL. No. It is \$22,000 less than I paid for it.

Mr. SIMON. How much did you pay for it?

Mr. KASKELL. \$87,800.

Mr. SIMON. The mortgage was \$66,000, is that right?

Mr. KASKELL. That is correct. I got \$22,000 approximately less than I paid for it.

Mr. SIMON. Who built that project?

Mr. KASKELL. The same one, Doral Construction Co.

Mr. SIMON. What was the actual cost to Doral Construction Co. of building the project?

Mr. KASKELL. \$1,396,000.

Mr. SIMON. What is the amount of the ground rent?

Mr. KASKELL. \$29,600.

Mr. SIMON. They pay you that for 99 years and it is ahead of the FHA mortgage?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Where is that project located?

Mr. KASKELL. Forest Hills, Long Island.

Mr. SIMON. Next, Anita Terrace. Is that one of your projects?

Mr. KASKELL. Yes, sir.

Mr. SIMON. What is the name of the corporation that owns the building?

Mr. KASKELL. Anita Terrace, Inc.

Mr. SIMON. What is the capital stock?

Mr. KASKELL. The same.

Mr. SIMON. What is that?

Mr. KASKELL. The same thing, \$1,000.

Mr. SIMON. Who owns the stock?

Mr. KASKELL. I do.

Mr. SIMON. What was the amount of the mortgage?

Mr. KASKELL. \$4,904,800.

Mr. SIMON. And the amount of the premium?

Mr. KASKELL. There was no premium on this one, I think.

Mr. SIMON. That is leased land?

Mr. KASKELL. Yes, sir.

Mr. SIMON. You have a mortgage there for \$43,000 more than the land cost you?

Mr. KASKELL. Yes, sir, \$43,000 more.

Mr. SIMON. What is the annual rental?

Mr. KASKELL. \$15,916.

Mr. SIMON. They pay you that for 99 years and it comes ahead of the FHA mortgage?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Who built that building?

Mr. KASKELL. The same one, Doral Construction Co.

Mr. SIMON. What was the actual cost?

Mr. KASKELL. \$5,090,000. We have invested in there \$185,871.

Mr. SIMON. The next one is Dara Gardens. Where is that located?

Mr. KASKELL. Flushing, Long Island.

Mr. SIMON. What is the name of the corporation that owns the property?

Mr. KASKELL. Dara Gardens, Inc.

Mr. SIMON. What is the capital stock?

Mr. KASKELL. The same, \$1,000.

Mr. SIMON. Who owns the stock?

Mr. KASKELL. Doral Construction Corp.

Mr. SIMON. Where did you say Dara Gardens was?

Mr. KASKELL. Flushing, Long Island.

Mr. SIMON. What is the street address?

Mr. KASKELL. I think 79th Street or something like that.

Mr. SIMON. Do you know what street it is on?

Mr. KASKELL. Right off Casino Boulevard. I think it is 79th Street at Casino Boulevard.

Mr. SIMON. You don't know?

Mr. KASKELL. I don't remember the streets.

Mr. SIMON. Have you ever been out there?

Mr. KASKELL. Yes. A couple of times.

Mr. SIMON. A couple of times?

Mr. KASKELL. That is all.

Mr. SIMON. That is a \$5 million project and you own it all?

Mr. KASKELL. Yes.

Mr. SIMON. And you have only been out there a couple of times?

Mr. KASKELL. Yes.

Mr. SIMON. Your best guess is it is on 79th Street?

Mr. KASKELL. It is right off Casino Boulevard. It is 79th Street or 80th Street, around that vicinity.

Mr. SIMON. What about Anita Terrace?

Mr. KASKELL. Anita Terrace, I know very well.

Mr. SIMON. Where is that?

Mr. KASKELL. 63d Road, and Regal Park.

Mr. SIMON. 63d Road and what?

Mr. KASKELL. 63d Road right off 99th Street, I think.

Mr. SIMON. Is it on the corner there?

Mr. KASKELL. It is a whole square block.

Mr. SIMON. Bounded by 63d and 99th?

Mr. KASKELL. It is on 63d Road and 99th Street.

Mr. SIMON. What about Cedar Gardens? Where is that?

Mr. KASKELL. It is 102d Street around 67th Road, I think it is.

Mr. SIMON. These are all in Forest Hills?

Mr. KASKELL. These are Forest Hills; yes.

Mr. SIMON. Now what was the premium on Dara Gardens?

Mr. KASKELL. No premium.

Mr. SIMON. There, that is leased land?

Mr. KASKELL. Yes, sir.

Mr. SIMON. The mortgage on the land is \$73,000 less than you paid for it? Is that right?

Mr. KASKELL. No.

Mr. SIMON. What did you pay for Dara Gardens?

Mr. GREENBERG. \$393,000.

Mr. SIMON. The mortgage is \$210,000, which would be \$170,000.

Mr. JUDD. \$180,000, I think.

Mr. SIMON. You paid \$393,000 and the mortgage is \$210,000—\$183,000 difference. Right?

Mr. KASKELL. Right.

Mr. SIMON. Is that right?

Mr. GREENBERG. That is right.

Mr. SIMON. Who built that project?

Mr. KASKELL. Doral Construction Co.

Mr. SIMON. How much did it cost?

Mr. KASKELL. To build the buildings?

Mr. SIMON. Yes.

Mr. KASKELL. \$4,316,000.

Mr. SIMON. Was that the actual cost?

Mr. KASKELL. The actual cost, not including no builders' fees.

Mr. SIMON. Has it included everything you paid any living soul?

Mr. KASKELL. No salary—yes.

Mr. SIMON. Next, Church Hill Manor. What is the name of the company that owns that?

Mr. KASKELL. Church Hill Manor, Inc.

Mr. SIMON. Who are the stockholders?

Mr. KASKELL. Doral Construction Co.

Mr. SIMON. Who owns Doral Construction Co.?

Mr. KASKELL. I do.

Mr. SIMON. What is the capital stock of Church Hill Manor?

Mr. KASKELL. \$1,000.

Mr. SIMON. What is the mortgage?

Mr. KASKELL. \$1,765,000.

Mr. SIMON. Premium?

Mr. KASKELL. \$12,156.75.

Mr. SIMON. Actual cost?

Mr. KASKELL. \$1,579,000—\$1,591,000.

Mr. SIMON. Who built it?

Mr. KASKELL. Doral Construction Co.

Mr. SIMON. Central Gardens No. 1. What is the name of the company that owns that?

Mr. KASKELL. Central Gardens No. 1, Inc.

Mr. SIMON. And Central Gardens No. 2. What is the name of the company that built that?

Mr. KASKELL. That built it? Did you say built it? Built or owned?

Mr. SIMON. Owned it first.

Mr. KASKELL. Central Gardens No. 1, Inc., owns it.

Mr. SIMON. Owns No. 2 also?

Mr. KASKELL. No, No. 2 owns No. 2.

Mr. SIMON. Did Doral build them both?

Mr. KASKELL. Yes, sir.

Mr. SIMON. What is the capital stock of each of those?

Mr. KASKELL. The same, \$1,000 on each corporation.

Mr. SIMON. Who owns the stock?

Mr. KASKELL. Doral owns the stock of these two corporations.

Mr. SIMON. And on No. 1, they are both on leaseholds?

Mr. KASKELL. Yes, sir.

Mr. SIMON. No. 1, the mortgage on the leasehold is \$201,000 more than you paid for it?

Mr. KASKELL. Yes, sir.

Mr. SIMON. And No. 2, it is \$80,000 more than you paid for it?

Mr. KASKELL. Yes, sir.

Mr. SIMON. The mortgage on No. 1 is \$2,858,000; the mortgage on No. 2 is \$1,294,500?

Mr. KASKELL. Yes, sir.

Mr. SIMON. What is the premium on No. 1?

Mr. KASKELL. No premium.

Mr. SIMON. The premium on No. 2?

Mr. KASKELL. \$9,700.

Mr. SIMON. What is the cost on No. 1? Is it \$3,090,694?

Mr. KASKELL. Yes, that is correct.

Mr. SIMON. Is the cost minus the premium on No. 2, \$1,425,000?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Fleetwood No. 1, who owns the stock in that?

Mr. KASKELL. It is either Fleetwood or Doral.

Mr. SIMON. Either Fleetwood or Doral?

Mr. GREENBERG. Either Doral or Mr. Alfred Kaskell.

Mr. SIMON. You don't know which one?

Mr. GREENBERG. I am quite sure it is Doral Construction Co. owning the stock of \$1,000.

Mr. SIMON. What about No. 2?

Mr. GREENBERG. The same with No. 2.

Mr. SIMON. What is the capital stock?

Mr. GREENBERG. The same thing.

Mr. SIMON. Is the mortgage \$1,595,000, the same amount in No. 2?

Mr. GREENBERG. Yes, sir.

Mr. SIMON. Is the cost of the land \$238,100 in each case?

Mr. KASKELL. Yes.

Mr. SIMON. Is that the actual cost of the land?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Who did you buy it from?

Mr. KASKELL. Cabarini and some other people. There were several people involved there.

Mr. SIMON. Is that what you paid them?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Is the cost on No. 1, \$1,690,932, the cost on No. 2, \$1,728,301?

Mr. JUDD. These figures include land.

Mr. SIMON. Is that right?

Mr. KASKELL. What was the question?

Mr. JUDD. Mr. Simon, we have figures which I think include the land cost. We would have to deduct in order to get the figures you just read.

Mr. SIMON. I was trying to expedite it. What was the cost of No. 1?

Mr. GREENBERG. \$1,929,000.

Mr. KASKELL. \$1,929,000.

Mr. SIMON. Does that include the cost of the land?

Mr. KASKELL. Yes, sir.

Mr. SIMON. What is the cost on No. 2?

Mr. KASKELL. \$1,966,000.

Mr. SIMON. Does that include the cost of the land?

Mr. KASKELL. That includes the cost of the land.

Mr. SIMON. Forest Hill Terrace: What is the name of the company that owns that?

Mr. KASKELL. Forest Hills Terrace, Inc.

Mr. SIMON. Who owns the stock of that company?

Mr. KASKELL. Doral Construction Co.

Mr. SIMON. What is the capital stock?

Mr. KASKELL. \$1,000.

- Mr. SIMON. What is the amount of the mortgage?  
Mr. KASKELL. \$1,543,000.  
Mr. SIMON. Was there a premium?  
Mr. KASKELL. No. I am almost sure there wasn't.  
Mr. SIMON. What is the cost of the land and the buildings?  
Mr. KASKELL. \$1,647,000.  
Mr. SIMON. Forest Hills Apartments: What is the name of the company that owns it?  
Mr. KASKELL. Forest Hills Apartments, Inc.  
Mr. SIMON. Who owns the stock?  
Mr. KASKELL. Doral Construction Co.  
Mr. SIMON. Capital stock?  
Mr. KASKELL. \$1,000.  
Mr. SIMON. And the amount of the mortgage?  
Mr. KASKELL. \$2,349,000.  
Mr. SIMON. Premium?  
Mr. KASKELL. No premium.  
Mr. SIMON. Cost, including cost of the land?  
Mr. KASKELL. \$2,506,000.  
Mr. SIMON. Normandy: What is the name of the company that owns that?  
Mr. KASKELL. Normandy, Inc.  
Mr. SIMON. Who owns the stock?  
Mr. KASKELL. Doral Construction Co.  
Mr. SIMON. You own all the stock in Doral?  
Mr. KASKELL. Yes, sir.  
Mr. SIMON. What is the capital stock of Normandy?  
Mr. KASKELL. \$1,000.  
Mr. SIMON. Amount of the mortgage?  
Mr. KASKELL. \$917,500.  
Mr. SIMON. Cost of the building and the land?  
Mr. KASKELL. \$1,068,977.  
Mr. SIMON. Hunter Gardens. What is the name of the company and who owns the stock?  
Mr. KASKELL. The Doral Construction Co.  
Mr. SIMON. What is the amount of the stock?  
Mr. KASKELL. \$5,000.  
Mr. SIMON. Is that built on leased land?  
Mr. GREENBERG. Yes, sir.  
Mr. KASKELL. Yes, sir.  
Mr. SIMON. Who owns the land?  
Mr. KASKELL. I do, Alfred L. Kaskell.  
Mr. SIMON. What is the amount of the mortgage?  
Mr. KASKELL. \$1,866,800.  
Mr. SIMON. What was the cost of the land?  
Mr. KASKELL. \$187,000.  
Mr. SIMON. What is the mortgage on the land?  
Mr. KASKELL. \$161,000.  
Mr. SIMON. What was the cost of the building?  
Mr. KASKELL. \$1,620,000.  
Mr. SIMON. Is that all of the section 608 buildings which you built? I appreciate you bought another one that was 90 percent completed but are these all the ones that you actually built?  
Mr. KASKELL. You mean the ones I finished?

Mr. SIMON. Are these all the section 608's that you actually built?

Mr. KASKELL. Yes, sir.

Mr. SIMON. The total mortgages on these 13 properties are \$31,791,000; is that right?

Mr. KASKELL. What was the question?

Mr. SIMON. The total mortgages on these 13 properties, FHA-insured mortgages, \$31,791,000; is that right?

Mr. KASKELL. Yes, sir.

Mr. SIMON. And the total proceeds of the mortgages on the buildings and the mortgages on the land exceed the cost of the buildings and the land by approximately \$250,000; is that right?

Mr. GREENBERG. By \$500,000.

Mr. SIMON. By \$500,000?

Mr. GREENBERG. Yes. That is including Hunter. I have my complete schedule which we submitted.

Mr. SIMON. That would be 13 projects?

Mr. GREENBERG. You eliminated another one and I am including the Hunter Gardens. There is 14 projects.

Mr. SIMON. I thought we included Hunter Gardens.

Mr. GREENBERG. No.

Mr. SIMON. The only one I was intending to leave out temporarily was Forest Hills.

Mr. GREENBERG. That was where we invested \$458,000.

Mr. SIMON. He didn't build the building, though?

Mr. GREENBERG. He finished it.

Mr. SIMON. I said excluding the one he bought 90 percent completed.

Mr. KASKELL. To finish it, it was more problems than to build a new building.

Mr. SIMON. I was asking one question at a time. I will be glad to get to the other. On the buildings which you built, the total mortgages were \$31,791,000; is that right?

Mr. KASKELL. If you leave the one out.

Mr. SIMON. You didn't build that, did you? You bought it 90 percent completed?

Mr. KASKELL. Ninety percent was almost meaningless. It had more problems for 10 percent than any other building to finish completed.

Mr. SIMON. I have no intention of denying you the right to talk about that one all day, but I would like to ask you one question at a time.

Mr. KASKELL. Yes, sir.

Mr. SIMON. The buildings which you built from start to finish, \$31,791,000, the ones we named; is that right?

Mr. KASKELL. That is right.

Mr. SIMON. By what amount do the mortgage proceeds exceed the costs?

Mr. JUDD. Mr. Simon, if I could interject there, there is \$200,000 of premiums which we have deducted from the mortgage proceeds. From the figures here, it appears——

Mr. SIMON. It doesn't make any difference, Mr. Judd, whether you add the premium to the amount of the mortgage or whether you deduct it from the cost. Your answer would be the same.

Mr. JUDD. Not quite, because on the figures that we have here after deducting the mortgage premium, there would be \$100,000 more of mortgage proceeds than of costs. If we allow the mortgage premium, there would be \$100,000 more of costs than of actual mortgage proceeds, exclusive of premium, and those figures don't take account of the fact that there was at least \$600,000 left in several of the buildings that was advanced or had been advanced by Mr. Kaskell.

Mr. SIMON. I am just asking the man a simple question, and all I want to know is the amount of money representing the difference between the mortgage proceeds on the buildings and the land on these projects, and the amount of money it cost him for the buildings and the land.

Mr. GREENBERG. On our 13 projects that you mentioned, Mr. Simon, the difference in the cost is greater by the mortgage by 100,000, excluding, however, the Forest Hills Manor, where we invested \$458,000.

The CHAIRMAN. Are you going to answer the question or aren't you? Please answer the question.

Mr. SIMON. Are you trying to tell me that on these 13 projects that I have mentioned, the cost of the land and the buildings exceeds the proceeds of the mortgages on the land and the buildings?

Mr. GREENBERG. Yes. I just figured that up.

Mr. SIMON. Let's add it up one at a time.

Mr. GREENBERG. All right. Do you have the schedule?

Mr. SIMON. I have it here and unless I can't add—

Mr. GREENBERG. That is exclusive of premiums.

Mr. SIMON. You got the premiums; didn't you?

Mr. GREENBERG. No; they were not included in the cost.

Mr. SIMON. You got the premium money, didn't you?

Mr. GREENBERG. When you ask a question insofar as costs are concerned, the premium has nothing to do with our actual costs.

Mr. SIMON. I didn't say it did, but it had to do with the actual proceeds of the mortgage.

Mr. GREENBERG. No. The premium is not a proceed on the mortgage.

Mr. SIMON. What happened to it? What happened to the premium money we are talking about?

Mr. GREENBERG. It has nothing to do with the mortgage.

Mr. SIMON. What happened to the premium?

Mr. GREENBERG. It was deposited to the corporation and reduced the cost but our actual cost was greater by that amount.

Mr. SIMON. You got the premium when you sold the mortgage, didn't you?

Mr. GREENBERG. Sure we get the premium. We are not denying we didn't get the premium.

Mr. SIMON. You got the premium when you sold the mortgage; isn't that right?

Mr. GREENBERG. That is correct.

The CHAIRMAN. What is it you gentlemen—you have been—we have had trouble with you as a witness from the very beginning. What is it you are trying to hide? Why don't you answer the question? We had trouble with you. We are getting tired of it. We should have cited you for contempt in New York. We are getting tired of fooling with you gentlemen. Either answer the question or say you don't

want to answer it or we will do what we think is necessary. We are getting tired of you sitting there, a smile on your face, and the attitude that you are taking. We are getting tired of it, getting tired of you fellows coming in here and taking that attitude. We are entitled to know and the American people are entitled to know. We, the people, guaranteed these mortgages. We want an accounting.

Mr. KASKELL. I am very happy—can I say something in regard to the figures?

The CHAIRMAN. Just answer the question.

Mr. SIMON. I asked you 10 minutes ago whether it isn't a fact the total amount of money that you received—

Mr. KASKELL. I will give you all the pictures you want. Will you please move away from here and don't get me nervous? I will let you take all the pictures. It is no reason to stare. Just move away. I want to answer all the questions. Will you please do that?

Mr. SIMON. The question I asked 10 minutes ago is whether the amount of money that you received—I don't care how you describe it, the amount of money that came into your pockets as the proceeds of the mortgages on the buildings and the proceeds of the mortgages on the land, didn't exceed the total costs of the land and the buildings by \$250,000.

Mr. GREENBERG. \$100,000; yes.

Mr. KASKELL. \$100,000 was the question.

Mr. SIMON. What is that?

Mr. KASKELL. A few minutes ago you said, Mr. Simon, \$100,000.

Mr. SIMON. I said \$250,000. It is \$100,000 on the FHA mortgages, and \$150,000 on the leaseholds.

Mr. KASKELL. Yes, sir.

Mr. SIMON. Then is the answer to my question "Yes"?

Mr. KASKELL. Just to that question; yes.

Mr. SIMON. That is the same question I asked 10 minutes ago; a quarter of a million dollars is the excess of mortgage proceeds over the costs of the land and the building; is that right?

Mr. KASKELL. Yes, sir.

Mr. SIMON. On the \$13,790,000 worth of mortgages?

Mr. KASKELL. Yes, sir.

Mr. SIMON. On Forest Hills, you bought that project when it was 90 percent completed; is that right?

Mr. KASKELL. That is right.

Mr. SIMON. The mortgage was \$2,845,000.

Mr. KASKELL. That is right.

Mr. SIMON. The amount of money—it is built on a leasehold; is that right?

Mr. KASKELL. I don't think so.

Mr. SIMON. Does the building include the land?

Mr. KASKELL. No; leasehold.

Mr. SIMON. The building corporation owns the land?

Mr. KASKELL. Yes, sir.

Mr. SIMON. Now, the amount of money you paid for that building, making it 90 percent completed, was so high that you ended up costing you \$458,000 more than the amount of the mortgage?

Mr. KASKELL. Yes, sir.

Mr. SIMON. What I don't understand is how you could build \$32 million worth of buildings, with the total costs less than the amount

of the mortgage, when you built them yourself, why would you go out and buy one that is already 90 percent completed where the cost is substantially more than the amount of the mortgage?

Mr. KASKELL. Well these buildings, where I built myself I didn't charge a builder's fee, no salary, no expenses, no architect's fee, where the other people would have to charge all this. If I would have charged these items in my buildings, where I built personally, would be \$3½ million difference. I would have an investment of \$3½ million.

Mr. SIMON. Is your explanation of why the Forest Hills Manor cost you more is the people you bought from made a builder's profit and an architect's fee and all that sort of thing?

Mr. KASKELL. They paid all of these things. I know for a fact they did pay all these things, and they owed a lot of money to the contractors.

Mr. SIMON. Who did you buy it from?

Mr. KASKELL. One individual, I remember, was Slavic.

Mr. SIMON. Who?

Mr. KASKELL. Slavic.

Mr. SIMON. He owned it?

Mr. KASKELL. He and 4 or 5 individuals owned it.

Mr. SIMON. How much did you pay them for the stock in their company?

Mr. KASKELL. I don't know what I paid him directly, but the total amount included the contractors and them——

The CHAIRMAN. How much did you pay them for the stock?

You bought this property from them. What did you pay them as individuals?

Mr. KASKELL. I don't remember. I paid them a nominal amount because that \$400,000 they owed to contractors, approximately that.

The CHAIRMAN. I understand. The project ended up four-hundred-some-thousand dollars less or more than the proceeds of the mortgage.

You bought it. It was about 90 percent complete. Now we want to know, how much did you pay the people from whom you purchased it? Did you pay them \$1, \$1 million, or \$10,000?

Mr. KASKELL. Senator, I didn't get you. Did you say the \$400,000 was the building cost less than the mortgage?

The CHAIRMAN. More.

Mr. KASKELL. The building cost more. The stock, I paid a few thousand dollars.

The CHAIRMAN. How much?

Mr. KASKELL. I don't know. Maybe a couple of thousand dollars. Maybe \$20,000. A very nominal amount.

The CHAIRMAN. Wouldn't your bookkeeper know?

Mr. GREENBERG. Offhand I don't know.

The CHAIRMAN. A big project and you do not have the slightest idea?

Mr. GREENBERG. We have the record but unfortunately, I did not put it on my schedule here.

Mr. SIMON. What I am interested in knowing is, here is a project in which the Government has a \$2,845,000 commitment, and you bought it 90 percent completed, and I am interested in knowing how much

you value, or how much these sellers value a project in which the Government had \$2 million, almost \$3 million.

Mr. KASKELL. As far as they are concerned, they were in trouble. They owed that amount of money to the contractors, and they came over to me and said they were in trouble, and would I come in there and see. I figured out that the buildings would be worth to me that amount of money. I paid out to the contractors about \$400,000 and I gave back that amount of money. It was a nominal amount.

Mr. SIMON. How much did they have invested in the project?

Mr. KASKELL. As I said offhand, I would say no more than—

The CHAIRMAN. You do not remember at the moment how much you paid for it.

Mr. KASKELL. No, sir.

The CHAIRMAN. Would you secure for us tomorrow and send down an affidavit showing exactly how much you paid for it and to whom you paid it.

Mr. KASKELL. I will be able to give it to you in an hour. I will call on the telephone.

(The information referred to follows:)

STATE OF NEW YORK,

*County of New York, ss:*

Alfred L. Kaskell, being duly sworn, deposes and says:

The records of Carol Management Corp. indicate that Frank Foggin was employed by Carol Management Corp. for the period beginning June 1, 1950, and ended December 31, 1953.

Mr. Foggin received during this period salaries totaling \$61,038.71.

The stock of Forest Hill Manor, Inc., which was acquired by me in November 1949, was purchased for the sum of \$1,000. In addition to the purchase price, I assumed payment of outstanding liabilities in excess of \$400,000 which had been incurred by the corporation. The \$1,000 purchase price was equivalent to the \$1,000 par value of the stock acquired.

ALFRED L. KASKELL.

Sworn to before me this 11th day of October 1954.

SOL KATZ,  
*Notary Public, State of New York.*

Term expires March 30, 1956.

Mr. SIMON. Do you know how much they paid for this project?

Mr. KASKELL. A very nominal amount. That is the amount I gave them back.

Mr. SIMON. You gave them back all they had invested?

Mr. KASKELL. Approximately that amount.

Mr. SIMON. They were building a \$3 million project with less than \$20,000 invested?

Mr. KASKELL. That is right. They got themselves in trouble.

The CHAIRMAN. Did you know that the cost was going to be \$400,000 some more than the mortgage proceeds when you purchased it?

Mr. KASKELL. Yes, I did.

The CHAIRMAN. You knew it then?

Mr. KASKELL. Yes.

The CHAIRMAN. You still bought it?

Mr. KASKELL. I still bought it.

Mr. SIMON. Frank Foggin—have you been able to find out since Monday how much he gets paid?

Mr. KASKELL. No. I am sure it is less than \$15,000 a year.

Mr. SIMON. We asked you on Monday—

Mr. KASKELL. I was here. I didn't go home.

Mr. SIMON. Couldn't you have called New York to find out how much he gets paid?

Mr. KASKELL. You didn't ask me to. I would be glad. However, I will give you that same information by telephone.

Mr. SIMON. Wait a minute, Mr. Kaskell. On Monday we asked you under oath how much this man got paid. He has been working for you for how long?

Don't you know how long he has been working?

Mr. KASKELL. He worked for me for about 3 years, I would say.

Mr. SIMON. You hired him from FHA?

Mr. KASKELL. After he left the FHA.

Mr. SIMON. Didn't he go to work for you immediately on leaving FHA?

Mr. KASKELL. No. I think he was away for a couple of weeks or so.

Mr. SIMON. He took a vacation, is that right?

Mr. KASKELL. That is right.

Mr. SIMON. Then he went to work for you. You don't know how much you paid him.

Mr. KASKELL. I say less than \$15,000 a year.

Mr. SIMON. Is that \$15,000 a year or \$14,099?

The CHAIRMAN. Will you telephone New York then?

Mr. SIMON. I will be able to give it to you exactly. I will give it to you on the penny. I will call on the telephone and get you the exact figures to the penny. (See p. 3327.)

Mr. SIMON. I don't understand why you didn't do that yesterday.

Mr. KASKELL. Nobody said a word to me.

Mr. SIMON. I asked you on Monday.

Mr. KASKELL. I said it was less than \$15,000 and you were satisfied with the answer.

The CHAIRMAN. Mr. Kaskell, let me say this in all good humor. That is why we kind of get out of sorts with you as we say in Indiana. We asked you this on Monday. You are here on Wednesday.

Mr. KASKELL. You kept me here. I didn't go home.

The CHAIRMAN. I am saying it in good humor. Let's all smile.

Mr. JUDD. Senator, we have been sitting here waiting to be called. We told Mr. Simon—Mr. Simon asked us whether we paid as much as \$25,000, we said no, we were sure it was less than \$15,000 and we thought that was a satisfactory answer. I am sorry if it is not. We have been trying to cooperate.

The CHAIRMAN. You are a large corporation. You deal in millions. As you said yesterday, \$50,000 to you isn't anything, even \$100,000 is a small amount. We expect you to have good records. You have to have an accountant that knows more of what he is doing. We know more about your business than you do.

Mr. KASKELL. We have very good records. If you will ask me I will check them.

Mr. SIMON. I take it if I continue to ask you questions about this \$1,079,000 of transactions with Traub that all you could tell me is what your books show, is that correct?

Mr. KASKELL. That is right.

Mr. SIMON. You wouldn't be able to tell us what any of these transactions were about?

Mr. KASKELL. No, sir, I cannot.

Mr. SIMON. You have seen this sheet of paper I have, four pages long.

Mr. KASKELL. Yes, sir.

Mr. SIMON. You have no independent recollection what any of those transactions are about?

Mr. KASKELL. No.

The CHAIRMAN. Give us that information this afternoon.

Mr. Kenney wants to ask a couple of questions.

Mr. KENNEY. In your experience as a builder, what would be a fair fee for the builder to earn constructing buildings of this type?

Mr. KASKELL. At least 5 percent.

Mr. KENNEY. That would be where there is no speculation. Where it is done on a speculative basis the builder's fee would depend on the success of the project and still be 5 percent.

Mr. KASKELL. It runs between the minimum, between 5 and 20 percent. The minimum under the worst speculative conditions you pay 5 percent.

Mr. SIMON. Are you confusing a builder's fee with a builder's profit?

Mr. KASKELL. No, a builder's fee. Mr. Simon, I am sorry you did not give me a chance to explain these things. If you will just take 1 minute, I am sure the people would be very interested to know, and I felt myself proud to come down here.

Mr. SIMON. I would be happy to have you explain that but I would be even happier if you could explain these \$1,079,000 transactions with Traub because I think the people would be interested in knowing those, too.

Mr. KASKELL. I would be very happy. It is very simple. You make a big production of it but it is very simple.

On these amounts, in 4 years' time, I gave him a certain amount, he gave me back and they check out to the penny. We have the records. However, if you pick up one item in the middle and say what did you do with the \$25,000, the day before I gave him probably \$50,000—you can't pick it out of there.

However, let me tell you this. I lost in an FHA job \$250,000. Nobody knew about that.

The CHAIRMAN. All right.

Answer Mr. Kenny's question, please.

Mr. KASKELL. Yes, sir.

Mr. KENNEY. What would be a fair profit to you in constructing these projects?

Mr. KASKELL. A fair profit?

Mr. KENNEY. Yes. You haven't included it in your cost, but what would be a fair profit?

Mr. KASKELL. About 15 percent.

Mr. KENNEY. Do you know whether or not you were able to rent these units on the basis of FHA estimates?

Mr. KASKELL. Whether I was able to rent them?

Mr. KENNEY. Yes. Were you able to get the rents that the FHA estimated or did you rent at less than the FHA estimated rents?

Mr. KASKELL. I think I got about the rent. First, I was building fireproof, the most of them were fireproof apartments, and the fact is I maintained all of them, and I am very proud, not only of this, but if somebody in this room knows me I have got three awards for the

best building in Queens in 13 years' time, and I am very proud of my record. I think I built the finest houses in Queens.

Mr. KENNEY. Are these a profitable investment to you?

Mr. KASKELL. Yes, they are.

Mr. KENNEY. Are they paying net income above depreciation?

Mr. KASKELL. Yes, they do. If the Government feels it made any mistake lending me the money, if the Government wants the money back without any penalty to me, I am sure I could refinance all this here and pay up the Government completely, if they feel they made a mistake with me.

The CHAIRMAN. Why don't you do it?

Mr. KASKELL. Let them give me permission. Without a penalty, I am sure I could do it. It is beautiful buildings.

The CHAIRMAN. I do not know the purpose of Mr. Kenney's questions, but in your situation, you owned the building company.

Mr. KASKELL. I do.

The CHAIRMAN. That built them—you own the projects you still own them.

Mr. KASKELL. That is right.

The CHAIRMAN. And the Government guaranteed the mortgage on them?

Mr. KASKELL. That is right.

The CHAIRMAN. Therefore, you do not pay yourself for mowing your own yard, do you?

Mr. KASKELL. Yes, I do, Senator. I didn't take no salary for these buildings, for 4 or 5 years. I must live from somewheres.

The CHAIRMAN. Of course you didn't. You own the buildings.

Mr. KASKELL. But I have to live during the time.

The CHAIRMAN. I get so sick and tired of listening to questions like Mr. Kenney asked you a while ago and the things you fellows try to put over. You fellows own these buildings when you get all through. Nobody would quarrel with you on this matter. There is very little mortgaging out in your case, but if you would reduce the amount of the mortgage—

Mr. KASKELL. Whatever this gentleman's name is, I think these were the most practical questions asked me today.

The CHAIRMAN. Of course, you do. Mr. Kenney was with FHA 20 years.

Mr. KASKELL. I could have added on 10 percent and had an investment of 3½ million. I didn't charge myself any salary, I have to live somewhere. I worked for nothing in these buildings for several years. Do you think that is fair?

The CHAIRMAN. All right. I am not going to belabor the point. The point is you own the property when you got all through and you still own it.

Mr. KASKELL. I do.

Mr. SIMON. Mr. Kaskell, do you think the Government ought to socialize the housing industry?

Mr. KASKELL. No, but let me tell you another thing—

The CHAIRMAN. Let me ask you something. I am going to get right down to the nub of this whole business with you builders.

Mr. KASKELL. I wish you would.

The CHAIRMAN. I am not so certain that somebody oughtn't to. You tell me that you builders now are wanting to build these build-

ings, have the Government guarantee them, you make a profit on them, get all of your money back and make a profit and continue to own them. I am going to say to you if that is what is going to happen in the United States the Government is going to build the buildings.

Mr. KASKELL. Just a minute, Senator, that is a very good question. Let me tell you, New York City—

The CHAIRMAN. That is the position you gentlemen are taking.

Mr. KASKELL. New York City is building the same units as I am building, New York City, that is of record and the city of New York is paying between \$12,000 and \$13,000 a unit, which I produced for \$3,000, and if the Government would build it, probably the Government, it would cost them \$15,000 a unit.

The CHAIRMAN. I have heard that argument. I am getting a little sick and tired of you private enterprisers, you builders, coming in here and insisting and saying that we will not get any rental housing, unless we permit you to make a profit. Guarantee the mortgages, and permit you to build them and make a profit and take it home with you. I don't mind telling you that if the Government is going to guarantee the mortgages and guarantee you a profit and continue to let you own it, I think maybe the Federal Government ought to own it.

Mr. KASKELL. It would cost the Government 50 percent more.

The CHAIRMAN. I think your attitude and what you have done here has set back the private enterprise system in building to a big degree.

Mr. KASKELL. I do not want to argue with you. If the Government would build these houses it would cost the Government from past experience, even the city or State, 50 percent more than it would cost the private builder.

The CHAIRMAN. If the private industry builds them for the Government is private industry cheating the Government because they charge them more than when they build them for themselves?

Mr. KASKELL. No. No cheating, but there is no overhead, salary, architect's fee, there is no builder's fee.

The CHAIRMAN. Any questions?

Thank you very much. Get us that information this afternoon, will you please?

Mr. JUDD. Thank you.

Is it all right if we send that down by telegram this afternoon?

The CHAIRMAN. You can do as you please. We may subpoena you for other hearings if you do not get it down.

We have had more trouble with you people than any other witnesses we have had. We and I want to say this to you: we are still going to check into this million some dollars, not only with you people, and Mr. Traub—don't get the idea that we are through. We are not through. We are going to continue checking it and so is the Internal Revenue Service. We are also going to turn it over to the Attorney General to check it.

Mr. JUDD. We are perfectly willing to give any further information that is requested.

The CHAIRMAN. We really want to do something worthwhile. If you are honest about it you will take the list and give us an explanation of every one of those transactions which you say you can do from your books.

Mr. JUDD. Senator, the paper you have there represents now 4 weeks work by Mr. Greenberg and his assistants trying to correlate the

checks of Mr. Traub that your investigators reported to us against our books.

Mr. SIMON. All it does is take the entries off your books. It does not tell us where the money went or what it was for.

Mr. JUDD. We were asked how the entries were treated on our books. That is what we provided.

I am sorry if it does not give you all you want.

The CHAIRMAN. Just give us the information we ask for instead of coming in here and not giving us full and complete disclosure of the whole business.

In other words, I am saying we are not through with you. You are excused now, but we are going to get to you again. We are going to find out.

We will keep at it until we find out what you did with that money.

Mr. JUDD. We have tried to give you everything we think is important.

The CHAIRMAN. No you haven't.

Thank you, sir.

Mr. Ben Cohen, will you please come forward?

Will you be sworn, Mr. Cohen?

Do you solemnly swear the testimony that you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF BEN COHEN, ALLAN APARTMENTS, NORFOLK, VA.,  
ETC., ACCOMPANIED BY JACOB KARTMAN, COUNSEL**

Mr. COHEN. I do.

The CHAIRMAN. Thank you very much. You may proceed, Mr. Counsel.

Mr. SIMON. Will you give your name and address to the reporter?

Mr. COHEN. Ben Cohen, 2518 Talbot Road, Baltimore, Md.

Mr. SIMON. I heard the "Baltimore," but I didn't hear the street address.

Mr. COHEN. Talbot Road.

Mr. SIMON. And the street address?

Mr. COHEN. 2518.

Mr. SIMON. 2518 Talbot Road, Baltimore, Md.

Mr. COHEN. Yes.

The CHAIRMAN. The gentleman with you is your attorney?

Mr. COHEN. Yes.

Mr. SIMON. What is your occupation, Mr. Cohen?

Mr. COHEN. Construction.

Mr. SIMON. Builders?

Mr. COHEN. Yes.

Mr. SIMON. Are you also interested in Pimlico Racetrack?

Mr. COHEN. Yes; that is an investment.

Mr. SIMON. Are you one of the major stockholders?

Mr. COHEN. One of the stockholders.

Mr. SIMON. Are you the builder of Allan Apartments at Norfolk?

Mr. COHEN. Yes, sir.

Mr. SIMON. What is the name of the company that built Allen Apartments?

Mr. COHEN. Housing Engineering Corp.

Mr. SIMON. Housing Engineering Corp. What is the capital stock of that company?

Mr. COHEN. Which company?

Mr. SIMON. Housing Engineering Co.

Mr. KARTMAN. Housing or Allan?

Mr. SIMON. Does Housing Engineering Co. own the building?

Mr. COHEN. No. Allan Apartments Corp. owns the building.

Mr. SIMON. Allan Apartments Corp. owns it.

Mr. COHEN. That is right.

Mr. SIMON. What is the capital stock of Allan Apartments Corp.?

Mr. COHEN. \$100.

Mr. SIMON. \$100 total capital stock?

Mr. COHEN. That is right.

Mr. SIMON. Who owns that stock?

Mr. COHEN. Housing Engineering Corp.

Mr. SIMON. What is the capital stock of Housing Engineering Corp.?

Mr. COHEN. I do not have it. I do not have it here. That question was not asked last time.

Mr. SIMON. Do you know what it is?

Mr. COHEN. The actual—

Mr. SIMON. Capital stock of Housing Engineering Corp.

Mr. COHEN. I would say it is nominal.

Mr. SIMON. What is nominal, a hundred dollars?

Mr. COHEN. Less than a hundred thousand, less than \$50,000, maybe—

Mr. SIMON. Less than \$1,000?

Mr. COHEN. No; I wouldn't say it is less than \$1,000.

Mr. SIMON. Less than \$1,500?

The CHAIRMAN. Mr. Cohen, do you own the stock?

Mr. COHEN. No; it is owned by several people.

Mr. SIMON. Who are the stockholders?

Mr. COHEN. Well, let's say the family.

Mr. SIMON. How is that?

Mr. COHEN. The family.

Mr. SIMON. You and your family own it all?

Mr. COHEN. Yes.

Mr. SIMON. I take it you put up the money and gave it to your family?

Mr. COHEN. No; the family happens to have money.

Mr. SIMON. How much of the stock do you own?

Mr. COHEN. Maybe 10, maybe 12½ percent.

Mr. SIMON. The rest of it is owned by members of your family?

Mr. COHEN. That is right.

Mr. SIMON. How much did you pay for your stock?

Mr. COHEN. Less than a thousand dollars.

Mr. SIMON. Less than a thousand?

Mr. COHEN. Yes. Would that pin it down close enough for you?

Mr. SIMON. That would make the total less than \$10,000; is that right?

Mr. COHEN. Yes.

Mr. SIMON. But you do not know how much less than \$10,000?

Mr. COHEN. Let's say a thousand dollars for the whole thing.

The CHAIRMAN. We want the facts, Mr. Cohen.

Mr. COHEN. I cannot—

The CHAIRMAN. Don't take this thing too lightly. We want the facts. That is all.

Mr. COHEN. I thought the \$10,000 was pinning it down low enough for you.

The CHAIRMAN. It is strange to me that you do not know the exact amount.

Mr. COHEN. Well, sir, I brought all the information.

The CHAIRMAN. It seems strange to me you could not remember that.

Mr. COHEN. Senator, I do not want to get, I mean, I don't want to argue with you. At the last—

The CHAIRMAN. We have had so much trouble with the last witnesses over a period of 30 days that I have just lost my patience a little bit.

Mr. COHEN. I don't choose for you to lose your patience with me, sir.

The CHAIRMAN. This is the first time you have been a witness. I have lots of patience with you but the other gentlemen ahead of you, for the last 30 days we have just had nothing but grief and trouble and I lost my patience with them.

Mr. KARTMAN. Senator, there is no desire to hide that capitalization. If it is sufficiently important we will get you the exact figure.

Mr. COHEN does not have it in mind and does not have the figures.

He states to you it is comparatively nominal. If that isn't sufficient, I can call Baltimore during a recess and get you the exact information.

The CHAIRMAN. Of course you can.

Mr. SIMON. Allan Apartments—

Mr. COHEN. I would say this, sir. For satisfactory figures, it was either a thousand, or \$10,000. We can clear that.

Mr. SIMON. This capital stock of Allan Apartments you know was \$100, and of Housing Engineering it was either \$1,000 or \$10,000.

Mr. COHEN. That is right.

Mr. SIMON. The project is built on Government land?

Mr. COHEN. The project is built on leased land from the Government.

Mr. SIMON. And it is a 75-year lease?

Mr. COHEN. The lease is 75 years, subject to cancellation in 50 $\frac{3}{4}$  years, if the mortgage is paid off.

Mr. SIMON. And what is the annual rent you pay the Government?

Mr. COHEN. \$100 for the land.

Mr. SIMON. The FHA mortgage is \$2,412,000?

Mr. COHEN. \$700.

Mr. SIMON. \$2,412,700.

Mr. COHEN. That is right.

Mr. SIMON. Who built the building?

Mr. COHEN. Housing Engineering Corp.

Mr. SIMON. What was the cost to Housing Engineering Corp. of building the building?

Mr. COHEN. The actual job cost, that is, on the job, exclusive of overhead, maybe insurance, and social security, is \$2,388,289.

The CHAIRMAN. This came under the Wherry Act?

Mr. COHEN. Yes.

Mr. SIMON. You were interviewed in executive session, weren't you?

Mr. COHEN. Yes.

Mr. SIMON. Did you give them that cost at the executive session?

Mr. COHEN. Yes. These are the same figures I had with me at the executive session.

Mr. SIMON. Then you also built Penn Manor, did you?

Mr. COHEN. Yes, sir.

Mr. SIMON. What was the name of the company that owned the building there?

Mr. KARTMAN. May we ask that the photographers step back?

The CHAIRMAN. If that is your wish.

Mr. COHEN. I cannot look at you—

The CHAIRMAN. All you have to do is make the request, Mr. Witness.

Mr. COHEN. They look like jumping jacks.

The CHAIRMAN. It is the request of the witness that the photographers take no photographs, and we will have to ask you to stand aside.

Mr. KARTMAN. If they want to take them now and be done with it, all right.

The CHAIRMAN. I think we had better do that for Mr. Cohen.

Move over a little bit to the right or the left.

Mr. COHEN. I should like to face you, sir, when I talk.

The CHAIRMAN. That is right, of course.

Mr. SIMON. Penn Manor—what is the name of the corporation that owns that project?

Mr. COHEN. Penn Manor Apartments are owned 50 percent of the stock is own by Herman Cohen, 50 percent is owned by Ben Cohen.

Mr. SIMON. What is the amount of the capital stock?

Mr. COHEN. \$1,000.

Mr. SIMON. What is the amount of the mortgage?

Mr. COHEN. You mean the original mortgage or the balance today?

Mr. KARTMAN. All these questions pertain to the original mortgage, not the present balance.

Mr. SIMON. Yes; I have a figure of \$2,465,200, the original mortgage. Is that the right amount?

Mr. COHEN. Exactly.

Mr. SIMON. Who built the building?

Mr. COHEN. Penn Manor Construction Corp.

Mr. SIMON. The sponsor was the builder; is that right?

Mr. COHEN. Yes.

Mr. SIMON. What was the cost?

Mr. COHEN. Job cost, as stated before, is \$2,377,423.

Mr. SIMON. Mr. Cohen, I see you have a transcript there of your executive session testimony.

Mr. KARTMAN. Yes, sir.

Mr. SIMON. Would you turn to page 8461? I was not present at the executive session, but you were asked this question about Allan Apartments:

What was the amount of the mortgage there?

Mr. COHEN. \$2,412,700.

Question. What was the total cost?

Mr. COHEN. Just a little under \$2 million.

Mr. COHEN. You were not talking about Allan. You are off of Allan now.

Mr. KARTMAN. You are going back.

Mr. SIMON. I went back because you told me a second ago that your cost in Allan was \$2,388,000. I had to look through the transcript to find the spot but 2 weeks ago you told us it was a little under \$2 million.

Mr. COHEN. Thanks for correcting me. I have a figure here.

I mistook it. I misquoted those figures, I am sorry. I do have the figures, the mortgage.

Under that figure I have \$2,388,289. I don't know what that is, but I do have that the construction cost was \$451,262 less than the mortgage.

That is a job cost, and if we deduct that, I could answer that question directly. I am sorry.

I had no intention.

Mr. SIMON. In any event, on Allan Apartments, the costs exceeded the mortgage by \$451,000, is that right?

Mr. COHEN. That is correct.

Mr. KARTMAN. That isn't correct, I am sorry, sir. The costs—you say the costs exceeded the mortgage? It is just the opposite.

Mr. SIMON. I am sorry. The mortgage exceeded the costs by \$451,000. There was what we call a windfall of \$451,000.

Mr. KARTMAN. I know what you intended to say.

I think you said the very opposite.

Mr. SIMON. Thank you, sir.

Going back to Penn Manor, the mortgage there was \$2,485,200.

Mr. KARTMAN. That is right.

Mr. SIMON. And your costs were what?

Mr. KARTMAN. \$2,377,423.

Mr. SIMON. Now there, again, you have a different figure from what you gave us in executive session. There you said \$2,330,000.

Mr. COHEN. I have it here. Wait a minute. When he developed these figures I developed them on the basis of the difference between the cost, and the construction cost, and I have here, construction cost—if you want them that way, we can give them to you—\$135,205 less, the actual job costs—

Mr. SIMON. Let me see if we can expedite this. The Allan Apartments—

Mr. COHEN. \$2,330,000 is correct.

The difference in it was \$135,205.

Mr. SIMON. That is the exact figure I have.

Mr. COHEN. I developed them a little different than the questions were asked.

Mr. SIMON. Let me see if we can expedite this. Allan Apartments is at what military base?

Mr. COHEN. Allan Apartments is not on a base, it is adjacent to the Naval Operating Station.

Mr. SIMON. At Norfolk?

Mr. COHEN. At Norfolk.

Mr. SIMON. Penn Manor is located at Penn Sauken, N. J.?

Mr. COHEN. That is right.

Mr. SIMON. That is a project of 308 units?

Mr. COHEN. 308 is correct.

Mr. SIMON. You built Benning Apartments in the District of Columbia here?

- Mr. COHEN. That is correct.
- Mr. SIMON. Where is that?
- Mr. COHEN. That is on Benning Road.
- Mr. SIMON. In the District?
- Mr. COHEN. In the District of Columbia.
- Mr. SIMON. That is 92 apartments?
- Mr. COHEN. 92 apartments.
- Mr. SIMON. You built Howard Apartments?
- Mr. COHEN. In Portsmouth, Va.
- Mr. SIMON. 119 units? Is that right?
- Mr. COHEN. I think so. Either 119, or 150. I have a record here of it. 119.
- Mr. SIMON. 119 units. You built Silver Hill Apartments, of 216 units.
- Mr. COHEN. Yes.
- Mr. SIMON. And where is it located?
- Mr. COHEN. Suitland, Md.
- Mr. SIMON. Suitland, Md.?
- Mr. COHEN. Yes.
- Mr. SIMON. The capital stock there was \$400?
- Mr. COHEN. Yes.
- Mr. SIMON. You built River Apartments, Norfolk, Va.?
- Mr. COHEN. River Point Apartments.
- Mr. SIMON. River Point Apartments?
- Mr. COHEN. Yes.
- Mr. SIMON. That is 220 units?
- Mr. COHEN. Yes.
- Mr. SIMON. Where is that?
- Mr. COHEN. That is in Norfolk, Va.
- Mr. SIMON. What is the street address?
- Mr. COHEN. There is three streets. It is behind the DuPaul Hospital, on Granby Street, and this is behind that. It is on Newport Avenue, facing it.
- Mr. SIMON. You built Riverside Apartments at Newport News, Va.?
- Mr. COHEN. River Drive Apartments.
- Mr. SIMON. River Drive?
- Mr. COHEN. Yes.
- Mr. SIMON. That is 208 units?
- Mr. COHEN. Yes.
- Mr. SIMON. Do you know the street address there?
- Mr. COHEN. 73d and River Drive, Newport News, Va.
- Mr. SIMON. You built—
- Mr. COHEN. The fact is it is not Newport News. It is Warwick City, which is adjacent to Newport News.
- Mr. SIMON. Then you built Monroe Park Apartments?
- Mr. COHEN. Wilmington, Del.
- Mr. SIMON. That is how many units?
- Mr. COHEN. 606.
- Mr. SIMON. 606 units, and there you had a substantial capital. The capital stock was \$6,000?
- Mr. COHEN. That is correct.
- Mr. SIMON. And the mortgage was \$5,296,000?
- Mr. COHEN. Yes—100.

Mr. SIMON. You built Lee Housing in Portsmouth?

Mr. COHEN. Yes.

Mr. SIMON. How many units was that?

Mr. COHEN. 250.

Mr. SIMON. And where is that located in Portsmouth?

Mr. COHEN. George Washington Highway.

Mr. SIMON. And you built Highland Apartments; is that right?

Mr. COHEN. Yes, Gloucester, N. J.

Mr. SIMON. How do you spell that?

Mr. COHEN. G-l-o-u-c-e-s-t-e-r.

Mr. SIMON. Do you know the street?

Mr. COHEN. No. It is a large—it is off of Market Street, right off of Market.

Mr. SIMON. 320 units?

Mr. COHEN. That is correct.

Mr. SIMON. Then the last one you built is Eastern Avenue Apartments in the District?

Mr. COHEN. That is not the last one. That was built in 1943.

Mr. SIMON. I am sorry. I didn't mean the last in point of time but the last of those you built?

Mr. KARTMAN. The last on your list, probably.

Mr. SIMON. Yes. You built Eastern Apartments?

Mr. COHEN. On Eastern Avenue.

Mr. SIMON. In the District?

Mr. COHEN. In the District and in Maryland. It is on Eastern Avenue line. Part of it is in Maryland, part of it is in the District.

Mr. SIMON. What street is it on?

Mr. COHEN. Eastern Avenue divides it. One part of it is in the District, the other part is in Seat Pleasant, Md., and another part is in Fairmont Heights, Md.

Mr. SIMON. That is 420 units.

Mr. COHEN. That is 120 to be exact.

Mr. SIMON. Does that list comprise all of the FHA insured projects you built?

Mr. COHEN. There is one in conjunction, practically finished that you have not asked about.

Mr. SIMON. I haven't asked you about the Oceana Airbase because I understand it is not finished.

Mr. COHEN. That is right.

Mr. SIMON. I couldn't expect you to give us your costs until you finish it.

Does that list include all the projects that are finished?

Mr. COHEN. That includes all the projects we built.

Mr. SIMON. All the projects you built under the Federal Housing Act.

Mr. COHEN. Under sections 608 and 103. We built under section 207 in 1939.

Mr. SIMON. This is all the section 608's and Wherry Acts you built?

Mr. COHEN. Yes. We own a couple of others.

Mr. KARTMAN. Mr. Simon, let's not have any confusion. Mr. Cohen emphasizes these are all they had built. They had purchased 1 or 2 others and he doesn't want you to be——

Mr. COHEN. I understand.

The CHAIRMAN. We have no interest in the ones he purchased because he would have no control.

Mr. SIMON. He would have no control over the costs on those he bought. The mortgages on these—the total on these mortgages is \$20,500,000?

Mr. COHEN. I calculated that back here, while waiting, and I made the \$19,917,600. That is close but I don't know——

Mr. SIMON. Is the excess of mortgage proceeds over cost, \$2,800,000?

Mr. COHEN. I made the job costs, exclusive of overhead, and other things, of \$17,315,000.

Mr. SIMON. \$17,300,000 against nineteen million dollars what?

Mr. COHEN. Against \$19,917,000.

Mr. SIMON. That should be \$2,600,000.

Mr. COHEN. Around \$2,600,000.

Mr. SIMON. Is your \$2,600,000 figure based on your first cost of Allan Apartments or your second one? You recall we were off there.

Mr. COHEN. Allan, while it is completely occupied and built, we still haven't paid all our bills on that necessarily.

Mr. SIMON. Whether it is my figure of \$2,800,000, or your figure \$2,600,000——

Mr. COHEN. It really doesn't matter.

Mr. SIMON. We are not very far apart.

Mr. COHEN. No.

Mr. SIMON. And whether it is \$19,900,000 of mortgages or \$20,500,000 of mortgages——

Mr. COHEN. Close enough.

Mr. SIMON. So on roughly \$20 million worth of mortgages, the mortgage proceeds exceed the cost by about \$2,600,000 or \$2,800,000.

The CHAIRMAN. You haven't sold any of these projects? You still own all of them?

Mr. COHEN. We own all of them at the present time.

Mr. SIMON. Mr. Cohen, did you get any premiums on these mortgages?

Mr. COHEN. If premiums were on them, the premium was taken into the income.

Mr. SIMON. And used to reduce the cost?

Mr. COHEN. Yes.

Mr. SIMON. So the figures we have are net after adjustment for premium?

Mr. COHEN. The figures that you have are net after premium. Then there is a charge on a lot of these for overhead and compensation insurance, social security, other things. In other words, the net is quite a bit different between the gross or the figure you quote.

The CHAIRMAN. Any further questions?

Mr. KARTMAN. Are we excused, Mr. Chairman?

The CHAIRMAN. Yes; you are excused.

Our next witness will be Mr. Fred Schneider. Come forward, Mr. Schneider, please. May I have your attention, please? The General Accounting Office officials, Arthur M. Chaite, Ian Woodner, Marshall Granger, will not be needed until 2 o'clock this afternoon, if that will be of any convenience to you. You may leave the room now and we will see you at 2 o'clock. That is the General Accounting Office officials, Arthur M. Chaite, Ian Woodner, and Marshall Granger.

We will call you at 2 o'clock this afternoon. You may leave the room now.

Now, Mr. Schneider, is it, will you please be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

**TESTIMONY OF FRED SCHNEIDER, RHODE ISLAND PLAZA APARTMENTS, WASHINGTON, D. C., ETC.**

Mr. SCHNEIDER. I do.

The CHAIRMAN. Please be seated and give your full name and address to the reporter and then you may proceed, Mr. Counsel.

Mr. SCHNEIDER. Fren Schneider, that is S-c-h-n-e-i-d-e-r.

Mr. SIMON. Your address, Mr. Schneider?

Mr. SCHNEIDER. 701 North Wayne Street.

Mr. SIMON. Wayne?

Mr. SCHNEIDER. Yes; Arlington, Va.

Mr. SIMON. Are you the builder of the Rhode Island Plaza Apartments in the District?

Mr. SCHNEIDER. I am.

Mr. SIMON. What was the name of the company that owns the project?

Mr. SCHNEIDER. Rhode Island, Inc.

Mr. SIMON. What is the capital stock of Rhode Island, Inc.?

Mr. SCHNEIDER. \$1,000.

Mr. SIMON. \$1,000?

Mr. SCHNEIDER. Yes, sir; or \$200. I don't remember.

The CHAIRMAN. Is it a thousand or two hundred?

Mr. SCHNEIDER. Senator, I don't recall. It is either a thousand or two hundred.

Mr. SIMON. The information I have, Mr. Schneider, is that you own 100 shares for which you paid \$100 and Marvin Slossberg owns 100 shares for which he paid \$100 and the total is \$200.

Mr. SCHNEIDER. \$200. That is Melvin Slossberg.

Mr. SIMON. The capital is \$200?

Mr. SCHNEIDER. That is correct.

Mr. SIMON. The mortgage is \$3½ million?

Mr. SCHNEIDER. That is correct.

Mr. SIMON. Who built the building?

What was the name of the construction company or was there no construction company?

Mr. SCHNEIDER. I believe Rhode Island, Inc., built that job themselves.

Mr. SIMON. The sponsor was the builder?

Mr. SCHNEIDER. The sponsors, Fred Schneider and Melvin Slossberg were the sponsors.

Mr. SIMON. The corporation?

Mr. SCHNEIDER. The corporation built the building.

Mr. SIMON. The same corporation owns the building?

Mr. SCHNEIDER. That is right.

Mr. SIMON. It is built on leased land; is it?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. Who owns the land it is built on?

Mr. SCHNEIDER. Melvin Slossberg, Fred Schneider, Lewis Zions, and Adele Cohen.

Mr. SIMON. Is the ground rent \$7,985 a year?

Mr. SCHNEIDER. That is right.

Mr. SIMON. And the building has to pay that amount of ground rent to you owners for 99 years?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. That comes ahead of the mortgage?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. What was the cost of constructing the building?

Mr. SCHNEIDER. Approximately three-million-two-hundred-thousand-some-odd dollars.

Mr. SIMON. Do you know how much?

Mr. SCHNEIDER. Not the exact figure.

Mr. SIMON. Do you have any books or records?

Mr. SCHNEIDER. No; I do not, Mr. Simon. I have them but I don't have them with me.

Mr. SIMON. We have been trying for a couple of months to find out from you what these costs were.

Mr. SCHNEIDER. I assumed you would want them. I just sent my auditor down to get them. On the subpoena they didn't ask me to bring any records and I didn't do so.

Mr. SIMON. Didn't you appear in executive session some time ago?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. They asked you then what the cost was; didn't they?

Mr. SCHNEIDER. I believe they did.

Mr. SIMON. That was on June 16?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. And even though you didn't know what the costs were then, haven't you tried to find out since then?

Mr. SCHNEIDER. We had certain memorandum figures at that time, Mr. Simon, which I haven't at this time, but I will have them within a half hour.

Mr. SIMON. You say it was \$3,200,000?

Mr. SCHNEIDER. The mortgage was \$3,500,000 approximately.

Mr. SIMON. And the costs were?

Mr. SCHNEIDER. Around three-million-two-hundred-fifty-thousand-some dollars.

The CHAIRMAN. A difference of about \$300,000?

Mr. SCHNEIDER. A little less, Senator.

Mr. SIMON. Was there a premium on the mortgage?

Mr. SCHNEIDER. Well, we sold the mortgage.

Mr. SIMON. Did you get a premium when you sold it?

Mr. SCHNEIDER. On a monthly payment basis.

Mr. SIMON. What is the premium?

Mr. SCHNEIDER. I think around \$700 or \$800 a month.

Mr. SIMON. How much have you received on the premium?

Mr. SCHNEIDER. We received it for 2 years.

Mr. SIMON. What is the total amount you are to get from the mortgage premium?

Mr. SCHNEIDER. We are not receiving it any longer.

Mr. SIMON. So whatever you were to get you have gotten?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. You got \$700 a month for 2 years?

Mr. SCHNEIDER. Approximately \$780 to \$800 a month.

Mr. SIMON. \$800 a month for 2 years would have been about \$20,000?

Mr. SCHNEIDER. About that, nineteen-thousand-some-odd dollars.

Mr. SIMON. The total costs, exclusive, were between \$200,000 and \$300,000 less than the mortgage?

Mr. SCHNEIDER. That is right.

Mr. SIMON. Without including the premium?

Mr. SCHNEIDER. That building was——

Mr. SIMON. Is that right?

Mr. SCHNEIDER. Yes, sir. I might add that that building was a losing proposition. That money has since been put right back in the building in an effort to carry the building.

Mr. SIMON. As of the day you completed this building you were not personally responsible for the mortgage?

Mr. SCHNEIDER. No, sir.

Mr. SIMON. You could have walked away from it any day you wanted to?

Mr. SCHNEIDER. That is right.

The CHAIRMAN. Do you still own the building?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. You had between \$200,000 and \$300,000 of mortgage proceeds in excess of all costs?

Mr. SCHNEIDER. Approximately correct.

Mr. SIMON. And your only investment in the buildings was \$200 of capital stock?

Mr. SCHNEIDER. Our final investment was only \$200.

Mr. SIMON. As of the date the building was completed.

Mr. SCHNEIDER. No. We had a great deal more invested at that time.

Mr. SIMON. When you finished paying out the mortgage money, et cetera?

Mr. SCHNEIDER. Yes.

Mr. SIMON. You had \$200 invested, you had between \$200,000 and \$300,000 left over out of the mortgage money?

Mr. SCHNEIDER. That is right.

Mr. SIMON. You personally owned the land. It was not owned by the building corporation.

Mr. SCHNEIDER. Well, a group of individuals owned the land.

Mr. SIMON. You and three others?

Mr. SCHNEIDER. That is right.

Mr. SIMON. And even though you walked away from the building they still have to pay you the ground rent of \$8,000 a year for 99 years?

Mr. SCHNEIDER. That is right.

Mr. SIMON. Or you would own the building ahead of the FHA mortgage?

Mr. SCHNEIDER. That is right.

The CHAIRMAN. Good naturedly now, because people might think I am getting a little cranky, but good naturedly, you want to say with an investment of \$200 you made then between \$200,000 and \$300,000 profit on this?

Mr. SCHNEIDER. No, sir. We did not make a profit. That was left over.

The CHAIRMAN. I say the proceeds of the mortgage were between \$200,000 and \$300,000 more than all your costs?

Mr. SCHNEIDER. Yes.

The CHAIRMAN. You got approximately a \$3 million mortgage. You own the land. You are getting about \$8,000 a year rental for 99 years. That comes ahead of FHA's mortgage and all for a \$200 investment.

Mr. SCHNEIDER. Senator, I would love to agree with you, sir, but that is not correct.

The CHAIRMAN. What is wrong about the statement?

Mr. SCHNEIDER. Well, we probably had over half a million dollars invested during the course of construction.

The CHAIRMAN. I understand, but it was loaned to you and when you got the proceeds of the Government-guaranteed mortgage you got it all back.

Mr. SCHNEIDER. Except this, that the building was a loss and we carried the building. We didn't take a nickel out of that building.

Mr. SIMON. You didn't have to carry it. You could walk away.

Mr. SCHNEIDER. We could have, but we carried it.

The CHAIRMAN. The only reason I bring it up good naturedly is that I think you builders and private industry have something to look at in the way this matter had been handled in the last 20 years. I am sure you are no more interested than I am in seeing this kind of thing continue.

Mr. SCHNEIDER. That is correct.

The CHAIRMAN. It isn't good. That is the purpose of this investigation. If I get out of sorts once in a while I apologize, but I think I have a right to get out of sorts once in a while because there is nobody that believes in the private enterprise system any more than I do and have fought for it any harder than I have.

Mr. SCHNEIDER. I appreciate that, sir.

The CHAIRMAN. When I see the Government participating in things of this sort and know it is going to hurt private industry in the end, I get a little impatient.

Thank you very much, Mr. Cohen.

Mr. SIMON. You built Parkchester, didn't you?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. What was the mortgage, \$1,980,000?

Mr. SCHNEIDER. That is right.

Mr. SIMON. What was the cost of construction?

Mr. SCHNEIDER. It was about \$120,000 in excess of the mortgage.

Mr. SIMON. What was the name of the company that built that?

Mr. SCHNEIDER. I think Slossberg-Schneider Co. built that.

Mr. SIMON. Arthur Slossberg?

Mr. SCHNEIDER. Slossberg-Schneider Co.

Mr. SIMON. They were the construction company?

Mr. SCHNEIDER. That is correct, sir.

Mr. SIMON. What is the name of the company that owned the project?

Mr. SCHNEIDER. Parkchester, Inc.

Mr. SIMON. Who were the stockholders of Parkchester, Inc.?

Mr. SCHNEIDER. Originally they were Diamond Coal Co., Sherman-Burt, Fred Schneider, Melvin Slossberg, and one other—Clineberg.

Mr. SIMON. What was the capital stock of Parkchester Corp.?

Mr. SCHNEIDER. I think 100 shares of stock.

Mr. SIMON. How much?

Mr. SCHNEIDER. About \$100 a share.

Mr. SIMON. That is \$10,000?

Mr. SCHNEIDER. No. It would be \$1,000.

Mr. SIMON. Ten shares at \$100?

Mr. SCHNEIDER. Approximately 10 shares.

Mr. SIMON. \$1,000 capital stock?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. Who bought the land?

Mr. SCHNEIDER. The land was already owned by Parkchester Corp. when we entered into the deal.

Mr. SIMON. Who did they buy it from?

Mr. SCHNEIDER. I don't know who they bought it from—some individuals, I believe. It was bought many years, several years before I entered into the deal.

Mr. SIMON. Do you know what they paid for it?

Mr. SCHNEIDER. No, sir. I do not.

Mr. SIMON. You don't know how much the individuals who put it in paid and you don't know how much the corporation paid them?

Mr. SCHNEIDER. All we knew is it had a mortgage on it. I don't recall how much they paid for it.

Mr. SIMON. Did you originally get into the project by agreeing to build the building for the amount of the mortgage?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. If that had gone through, then you were to get 38 percent of the stock?

Mr. SCHNEIDER. We did get 38 percent of the stock. That deal did go through.

Mr. SIMON. You got 38 percent of the stock for agreeing to build the building for the amount of the mortgage; is that right?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. Did you build the building for the amount of the mortgage?

Mr. SCHNEIDER. We did not.

Mr. SIMON. It cost you more than that?

Mr. SCHNEIDER. Yes, sir.

Mr. SIMON. Then you agreed to buy out the other interests for \$173,000?

Mr. SCHNEIDER. I think it was \$178,000.

Mr. SIMON. \$178,000.

You paid \$50,000 cash and the balance by corporate notes?

Mr. SCHNEIDER. For 1 year.

Mr. SIMON. That was paid by the corporation, not you?

Mr. SCHNEIDER. No. We loaned the money to the corporation to buy it. That note was made when it became due.

Mr. SIMON. Thank you very much, sir. You are excused.

The CHAIRMAN. Mr. Herbert Glassman. Will you please raise your right hand, Mr. Glassman? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF HERBERT GLASSMAN, GLASS MANOR, WASHINGTON D. C., ACCOMPANIED BY LEE H. MARK, ACCOUNTANT**

Mr. GLASSMAN. I do.

The CHAIRMAN. Thank you, sir. Please be seated and give your name and address to the reporter. The gentleman with you is your accountant?

Mr. GLASSMAN. Yes.

Mr. MARK. My name is Lee H. Mark.

Mr. SIMON. Mr. Glassman, will you give your full name and address?

Mr. GLASSMAN. Herbert Glassman.

Mr. SIMON. Your address?

Mr. GLASSMAN. 3849 Colorado Avenue NW.

Mr. SIMON. Your occupation?

Mr. GLASSMAN. Builder.

Mr. SIMON. Builder?

Mr. GLASSMAN. Yes, sir.

Mr. SIMON. How long have you been a builder, Mr. Glassman?

Mr. GLASSMAN. About 18 years.

Mr. SIMON. Were you ever a policeman?

Mr. GLASSMAN. When I first came out of the Army; yes.

Mr. SIMON. That was a long time ago?

Mr. GLASSMAN. Yes, sir.

Mr. SIMON. You built Glass Manor; is that right?

Mr. GLASSMAN. That is right.

Mr. SIMON. Where is Glass Manor located?

Mr. GLASSMAN. 101 Audrey Lane, Oxen Hill, Md.

Mr. SIMON. What was the capital stock of the corporation that owns the building?

Mr. GLASSMAN. It was 300—

Mr. SIMON. Three hundred and sixty-five shares at \$5 each, or \$1,725?

Mr. GLASSMAN. That is right.

Mr. SIMON. There are three sections, aren't there?

Mr. GLASSMAN. A, B, and C.

Mr. SIMON. And the total mortgage on the 3 sections is \$6,249,000?

Mr. GLASSMAN. Right.

Mr. SIMON. Is that correct?

Mr. GLASSMAN. That is right.

Mr. SIMON. Who built the buildings?

Mr. GLASSMAN. We did, Stanbern Construction Co.

Mr. SIMON. You own that? The same people own that that own the Glass Manor?

Mr. GLASSMAN. That is right.

Mr. SIMON. What was the actual cost of construction?

Mr. GLASSMAN. \$5,997,898.35.

Mr. SIMON. The actual cost of construction was \$251,301 less than the mortgage?

Mr. GLASSMAN. That is right.

Mr. SIMON. Did you get a premium on the mortgage?

Mr. GLASSMAN. No premium.

The CHAIRMAN. Did you ever know Mr. Clyde L. Powell?

Mr. GLASSMAN. Never knew him; no, sir.

The CHAIRMAN. Did you ever meet him?

Mr. GLASSMAN. Never. The first time I saw him was in this room yesterday.

The CHAIRMAN. You never came in contact with him?

Mr. GLASSMAN. No, sir.

The CHAIRMAN. Do you know Mr. Keleher?

Mr. GLASSMAN. Yes. I know Mr. Keleher.

The CHAIRMAN. Did you do a lot of business with Mr. Keleher?

Mr. GLASSMAN. I did some business with him.

The CHAIRMAN. Have you questions?

Mr. KENNEY. No, sir.

The CHAIRMAN. Thank you very much.

The next witness will be Mr. William Magazine. Will you be sworn, please?

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF WILLIAM MAGAZINE, BERKSHIRE APARTMENTS,  
WASHINGTON, D. C.**

Mr. MAGAZINE. I do.

The CHAIRMAN. Please be seated.

Give your name to the reporter.

Mr. MAGAZINE. William Magazine, 1010 Vermont Avenue, Washington, D. C.

Mr. SIMON. Would you give your name and address to the reporter, please?

Mr. MAGAZINE. I did.

Mr. SIMON. I couldn't hear you.

The CHAIRMAN. Pull the microphone up a little closer, will you, Mr. Magazine?

Mr. MAGAZINE. Mr. William Magazine, 1010 Vermont Avenue N.W. Washington, D. C.

Mr. SIMON. Mr. Magazine, what is your business?

Mr. MAGAZINE. General contracting and builder.

Mr. SIMON. General contracting?

Mr. MAGAZINE. That is right.

Mr. SIMON. How long have you been in that business?

Mr. MAGAZINE. Well, the Standard has been in that business since 1939. I have been in the business all my life.

Mr. SIMON. Do you have a son, Sheldon?

Mr. MAGAZINE. I have two sons.

Mr. SIMON. Is one of them Sheldon?

Mr. MAGAZINE. Yes.

Mr. SIMON. What has been the relationship between either you or your son Sheldon and Clyde Powell?

Mr. MAGAZINE. No relationship whatsoever.

Mr. SIMON. Have they been on, shall we say, intimate terms?

Mr. MAGAZINE. I don't know what you mean "intimate terms." With who? With Powell?

Mr. SIMON. Yes.

Mr. MAGAZINE. I knew him.

Mr. SIMON. You knew him quite well, didn't you?

Mr. MAGAZINE. I knew him well. I don't know what you mean "quite well."

Mr. SIMON. Were you and Sheldon frequently visitors to his office?

Mr. MAGAZINE. Sheldon was never to his office.

Mr. SIMON. What is that?

Mr. MAGAZINE. Sheldon was never a visitor to his office.

Mr. SIMON. How about you?

Mr. MAGAZINE. I was.

Mr. SIMON. A frequent visitor?

Mr. MAGAZINE. Well, whenever I wanted to ask something about some FHA business, I would say "yes."

Mr. SIMON. Your office was right across the street there; wasn't it?

Mr. MAGAZINE. That is right.

Mr. SIMON. Was it your custom that whenever you had a problem you went over and saw him?

Mr. MAGAZINE. No. We always settled the problems in the district office.

Mr. SIMON. How frequently did you go see Mr. Powell?

Mr. MAGAZINE. Well, in 1946, we were finishing a job that the main office had to do with it, not the district office, and we used to go up to see Mr. Joe Alaman, who was the chief inspector of the whole country.

Mr. SIMON. Did you ever have any business dealings with Mr. Powell?

Mr. MAGAZINE. No.

Mr. SIMON. Are you certain of that?

Mr. MAGAZINE. Yes.

Mr. SIMON. In all these dealings with him, did you ever make any gifts to him?

Mr. MAGAZINE. Not a gift.

Mr. SIMON. How many times did you go to see him?

Mr. MAGAZINE. Well, while we were finishing the project that I mentioned in 1946, probably more often than all the other times, and after that, the only time we used to go up there is we had a lot of people coming along trying to sell us projects outside of the city and out in the country and knowing that he was administrator of the whole country I used to go up and ask him what he thought about it or whether he knew anything about it, although we never bought any.

Mr. SIMON. How many section 608 projects did you have an interest in?

Mr. MAGAZINE. Quite a few.

Mr. SIMON. How many?

Mr. MAGAZINE. Well, it is probably 18 or 20.

Mr. SIMON. Eighteen or twenty?

Mr. MAGAZINE. Yes.

Mr. SIMON. Do you remember which it is?

Mr. MAGAZINE. Queenstown—

Mr. SIMON. How is that?

Mr. MAGAZINE. Queenstown.

Mr. SIMON. Do you know whether it is 18 or 20?

Mr. MAGAZINE. You mean in Queenstown?

Mr. SIMON. No, altogether.

Mr. MAGAZINE. I wouldn't remember. I will tell you, when we were questioned by your executive committee, I didn't bring anything

with me, as I did now, and Mr. Hogue, after questioning, asked me whether I would send him a complete breakdown of what interests I had in the projects that I built and I did, so I didn't bring anything. He has everything.

Mr. SIMON. You have a list of 34 section 608 projects.

Mr. MAGAZINE. It is possible.

Mr. SIMON. Is that right?

Mr. MAGAZINE. Yes, if that is in there, that is right.

The CHAIRMAN. You said 18 or 20. You just missed it by about 50 percent; didn't you?

Mr. MAGAZINE. I have to do a little thinking.

The CHAIRMAN. I see.

Mr. MAGAZINE. We did a lot of it. I wouldn't know offhand. That is the reason we sent them everything we had.

Mr. SIMON. Was the total amount of mortgages in those projects \$49,537,500?

Mr. MAGAZINE. That is right, if that is what the list is; that is right.

Mr. SIMON. Is that right?

Mr. MAGAZINE. That is right.

Mr. SIMON. Is that the amount?

Mr. MAGAZINE. If you are reading from the list I gave Mr. Hogue, it is right.

Mr. SIMON. Who built those buildings?

Mr. MAGAZINE. Standard Construction Co.

Mr. SIMON. Who are the stockholders of Standard Construction Co.?

Mr. MAGAZINE. Myself and Mr. Charles I. Kaplan.

Mr. SIMON. Who were the stockholders in these section 608 projects?

Mr. MAGAZINE. Different people.

Mr. SIMON. In Barnaby Terrace, there was \$2,000 of stock. Who owned that?

Mr. MAGAZINE. You say who owned that?

Mr. SIMON. Yes.

Mr. MAGAZINE. Now? We don't own it.

Mr. SIMON. Originally.

Mr. MAGAZINE. Mr. Kaplan and myself and Anthony Azo.

Mr. SIMON. That is \$2,000 common stock. In the Berkshire there was \$500 of common stock. Who owned that?

Mr. MAGAZINE. There is about 32 or 33 people owns that. You have all the stockholders there.

The CHAIRMAN. That would be about \$15 worth apiece; is that right?

Mr. SIMON. Is that right?

Mr. MAGAZINE. Whatever that statement is, is right.

Mr. SIMON. What was the common stock in the Berkshire?

Mr. MAGAZINE. I wouldn't know. I don't remember. That is the reason we made up that sheet.

Mr. SIMON. Do you have a copy of this sheet?

Mr. MAGAZINE. I don't have it here. I probably have it in the office. My accountant has it.

The CHAIRMAN. What did you think we wanted you here for this morning, just a social event?

Mr. MAGAZINE. No. I didn't know whether I had to bring books or papers. I know we sent them.

The CHAIRMAN. The common stock in the Berkshire was \$500?

Mr. MAGAZINE. If that is what it says there, it was.

The CHAIRMAN. That is what it says.

Mr. MAGAZINE. It was.

The CHAIRMAN. You say it was owned by 15 or 20 people?

Mr. MAGAZINE. No; by 30 people.

The CHAIRMAN. By 30?

Mr. MAGAZINE. By 30 or 31 people. I believe you have the stockholders there, too.

The CHAIRMAN. Where are the names of those 30 people? Thirty into \$500 would be \$15 or \$16 apiece. Did they pay \$16 apiece for the stock, or did you just give them the stock?

Mr. SIMON. Do you recall?

The CHAIRMAN. Did you give them the stock or did they pay?

Mr. MAGAZINE. They paid.

The CHAIRMAN. Thirty stockholders into \$500 would be about \$16 apiece; wouldn't it?

Mr. MAGAZINE. You have the stockholders there and their proportion.

Mr. SIMON. Mr. Magazine, I do notice that eight of these stockholders all had the name Gelfin. Are they all part of the same family?

Mr. MAGAZINE. That is the same family.

Mr. SIMON. I notice five of them had the name Goldman.

Mr. MAGAZINE. That is also the same family.

Mr. SIMON. I notice four of them have the name Magazine. Is that the same family?

Mr. MAGAZINE. Yes.

Mr. SIMON. If we treat them as families instead of individuals we would get down to about 8 or 9 stockholders; is that right.

Mr. MAGAZINE. Yes, if you treat them as families.

The CHAIRMAN. What was the amount of the mortgage? Is this the Berkshire?

Mr. SIMON. That is the Berkshire at Ward Circle?

Mr. MAGAZINE. 4201 Massachusetts Avenue.

The CHAIRMAN. What was the amount of the mortgage?

Mr. SIMON. The mortgage there was \$6,760,000.

Mr. MAGAZINE. Yes.

The CHAIRMAN. You did it on a \$500 capital stock and divided it up with 30 people?

Mr. SIMON. Mr. Magazine, on the totals, do I understand correctly that the cost of construction to the Standard Construction Co. of all these properties, including the land, the total cost, was roughly a half million dollars less than the total amount of the mortgage?

Mr. MAGAZINE. I don't think that is what the paper says. I think you will find that the cost is more than the mortgage in all these.

Mr. SIMON. You have given us 2 items of cost here, 1 is the cost from the sponsor corporation to Standard Construction, which is your company.

Mr. MAGAZINE. That is right.

Mr. SIMON. Then the cost to Standard Construction Co.

Mr. MAGAZINE. The Standard Construction Co., as far as the project is concerned, was a general contractor.

Mr. SIMON. And you and Kaplan owned Standard Construction Co.?

Mr. MAGAZINE. That is right.

Mr. SIMON. You and Kaplan were in all these projects?

Mr. MAGAZINE. A very small portion of it, if you will notice.

Mr. SIMON. I don't know what your idea of very small is, but when you add your family and his family—

Mr. MAGAZINE. You add both of our families in some of the projects and it is very small.

Mr. SIMON. In some it is very big.

Mr. MAGAZINE. Very few is big.

Mr. SIMON. Take Barnaby Terrace.

Mr. MAGAZINE. That is a very small one. We had 50 percent and Anthony Azo had 50 percent.

Mr. SIMON. We can go through these and show you how much each of you owned, but isn't it a fact that these 34 projects, with \$49½ million of mortgages, were built by your construction company at a cost of a half million dollars less than the mortgages?

Mr. MAGAZINE. You can say that. The Standard Construction Co. had nothing to do with the projects as far as ownership is concerned. That is a company. They could get McShain or anybody else to build it.

Mr. SIMON. I understand, but isn't it a fact that the cost of construction was half a million dollars less than the amount of the mortgages?

Mr. MAGAZINE. No. I wouldn't say that.

The CHAIRMAN. It is true from your own figures.

Mr. MAGAZINE. As far—

The CHAIRMAN. You gave us this, didn't you?

Mr. MAGAZINE. You mean taking off the fee that Standard made?

Mr. SIMON. Yes.

Mr. MAGAZINE. That is possible.

The CHAIRMAN. You gave us the figures yourself.

Mr. MAGAZINE. That is possible, Senator.

Mr. SIMON. Bear in mind we don't know what the costs are. You gave us this piece of paper.

Mr. MAGAZINE. That is right cost.

Mr. SIMON. I don't even know whether these figures are right.

Mr. MAGAZINE. Those figures are right.

Mr. SIMON. But these figures show that your construction company's costs, including the land, building, and everything else were a half million dollars below the mortgages on the \$49½ million.

Mr. MAGAZINE. It was over the mortgage when they paid the fee to Standard which has nothing to do with the corporation's ownership.

Mr. SIMON. Well, the intercompany profits shown by your statement—and I am just reading what is on your statement—is that on the \$49½ million worth of mortgages, the cost to the sponsor corporation was \$50,600,000, or \$1,100,000 in excess of the mortgages.

Mr. MAGAZINE. That is right.

Mr. SIMON. And then your construction company had a profit of \$1,600,000.

Mr. MAGAZINE. Yes.

Mr. SIMON. So you can subtract one million one from one million six. There is a half million dollars by which the mortgage proceeds exceeds the cost.

Mr. MAGAZINE. If that is the way you figure it is right, but Standard had nothing to do with ownership.

The CHAIRMAN. We didn't say they did. That wasn't the question at all.

Mr. SIMON. In addition, you got \$300,000 or \$279,000 premium on the mortgages. Isn't that right?

Mr. MAGAZINE. If that is in there, that is right.

Mr. SIMON. So that if we can add that to the mortgage proceeds, the mortgage proceeds were \$300,000 in excess—I mean \$800,000 in excess of the cost.

Mr. MAGAZINE. If that is what it says there, but I don't know how you can connect the two. It is altogether different.

Mr. SIMON. You can't connect the mortgage proceeds?

Mr. MAGAZINE. No; I mean Standard with the sponsor corporation. They had nothing to do with it, just the same as if you go out and hire any other contractor.

The CHAIRMAN. We didn't say it wasn't. We are trying to show the mortgages were \$50 million. We are trying to show what the costs were. Under the law, of course, it was to be 90 percent. What really should have happened in this instance was that the sponsor should have put \$5 million of their own money in these projects.

Mr. MAGAZINE. This country wouldn't have had housing.

The CHAIRMAN. Instead of that they didn't put in any. The law says 90 percent, which means that the intention was that the people who built the project would have 10 percent of their own money in it and on \$50 million worth of projects that would be \$5 million.

Mr. SIMON. Even if you completely separate Standard and these projects, and say that this \$1,600,000 was your builder's fee, the sponsors of the projects only had 2 percent instead of 10 percent invested in the projects?

Mr. MAGAZINE. That is right. If they had to invest 10 percent there wouldn't be any housing, I don't think.

The CHAIRMAN. I have heard that. I have been listening to that. I want to say to you again, do you believe in the private enterprise system?

Mr. MAGAZINE. I sure do.

The CHAIRMAN. You don't talk like it. If we have gotten down to the point in America where the Federal Government has got to guarantee a hundred percent and give you builders a profit on top of it and then permit you to continue to own the buildings, you are not going to have a private-enterprise system very long. You had better wake up to that fact. I am getting a little tired of listening to that story because if it is true, then we are in for some bad times, meaning the private-enterprise system in the United States. If it has got to the time where a man will not build unless the Federal Government guarantees him not only a profit but all of his money back and then permits him to own the buildings, you are getting into a lot of trouble in the United States, Mr. Magazine. There is no question about it in my mind. I have been listening to that argument now on the part of all you fellows.

Frankly, it doesn't go good with me as a champion of the private-enterprise system. Let me say this to you in all fairness: It isn't particularly your fault. It is the fault of the Administration, those running FHA, that would permit a thing like this to happen. There is nothing in the law to stop them from doing this thing on a business-like basis. The man who ran that section 608 project was here all day yesterday. We have a little idea of why this thing stinks to the high heaven. A man who spent all his time gambling, borrowing money, shaking down people and not paying it back, for 20 years with FHA. He was finally discharged here last April. The man that discharged him, Mr. Hollyday, wrote a press release praising him for his work. He praised him for his work, Mr. Hollyday did. They finally were able to get rid of him. He said what a great man he was and what a great job he did, and Mr. Hollyday wondered why he got into trouble.

Any further questions?

Mr. SIMON. No, sir.

The CHAIRMAN. Thank you very much, unless you have some questions.

Mr. KENNEY. No.

The CHAIRMAN. Thank you very much.

We are now going to recess until 1:30. We will have five witnesses this afternoon.

Mr. SIMON. Mr. Chairman, I would like to offer in the record two documents relating to our hearing in Chicago. One is a State of Iowa State Tax Commission application for a retail sales tax permit by the Sports Arcade, owned by Hymie Wiseman and Lou Farrell. You will recall that Mr. Farrell denied having any connection with that project, and secondly, a certified copy of a complaint filed in the district court of Iowa, in and for Polk County, by Gladys Rand against Lou Farrell, and you will recall Mr. Farrell denied being a party to that lawsuit.

The CHAIRMAN. The documents will be admitted into the record. (The information referred to follows:)

STATE OF IOWA,  
Polk County, ss:

I, Michael H. Doyle, Jr., clerk of the district court in and for said county, in the State aforesaid, do hereby certify the foregoing to be a true, perfect, and complete copy of petition in equity, restraining order, and order of dismissal in the cause of action entitled "*Gladys Rand v. Lou Farrell*," being equity No. 103-57037, as the same appears of record in my office.

In testimony whereof, I have hereunto set my hand and affixed the seal of said court, at my office in Des Moines, this 24th day of September A. D. 1954.

[SEAL]

MICHAEL H. DOYLE, Jr., Clerk.

STATE OF IOWA,  
Polk County, ss:

I, C. Edwin Moore, judge of the district court, do hereby certify that Michael H. Doyle, Jr., whose name is subscribed to the foregoing certificate of attestation, now is, and was at the time of signing and sealing the same, clerk of the district court of Polk County aforesaid, and keeper of the records and seal thereof, duly elected and qualified to office; that full faith and credit are, and of right ought to be given to all his official acts as such, in all courts of record and else-

Form No. ST-2, revised

STATE OF IOWA  
STATE TAX COMMISSION

4595 NOV 29 47

APPLICATION FOR RETAIL SALES TAX PERMIT

DIVISION OF RETAIL SALES AND USE TAX, STATE TAX COMMISSION, Des Moines 7, Iowa  
As required by Sec. 422.55, Code 1946  
Do not fill in this space

Fee of Fifty Cents (\$0.50) must be attached to each application.

Make Remittance Payable to:

THE TREASURER OF THE STATE OF IOWA.

NOTE:—POSTAGE STAMPS AND CASH

NOT ACCEPTABLE

|                              |        |
|------------------------------|--------|
| 77-20502                     | 7-1-47 |
| SPORTS ARCADE.               |        |
| HYMIE WISEMAN & LEV FARRELL. |        |
| 612 GRAND, DES MOINES, IOWA. |        |
| 62 2 1 2                     | 112947 |

- The undersigned hereby applies for a RETAIL SALES TAX PERMIT and agrees that applicant will pay all retail sales tax due or to become due as provided by law. The undersigned certifies that the following statements are true and correct as he verily believes and that he has lawful authority to make this application on behalf of applicant.
- Permit to be issued in name of: Sports Arcade
- Name or names of owner or owners: Hymie Wiseman & Lev Farrell
- Location of business in IOWA: 612 Grand Des Moines Polk  
Street and Number City or Town County
- Give Permanent Mailing Address below if different from the above business location:  
Same  
P. O. Box or Street and Number City or Town County State
- Nature of Business in which you are Engaged: Billiard Parlor  
Specify whether a Theatre, Clothier, Grocer, etc.
- ON WHAT DATE WILL YOU BEGIN RETAIL SALES AT ABOVE LOCATION: July 1 1947  
Month Day Year
- Check type of Ownership in Square:  INDIVIDUAL  PARTNERSHIP  CORPORATION  ASSOCIATION  GOVERNMENT UNITS  
(If ownership is Partnership or Company, this Application must be signed by ALL owners.)
- How many retail locations do you operate in Iowa? 1 A permit MUST be held for each.
- If more than one Permit is held, do you prefer to file: Consolidated Return to cover ALL   
Separate Return for each Location
- HAVE YOU or ANY MEMBER of THIS FIRM PREVIOUSLY HELD an IOWA SALES TAX PERMIT? NO
- If above answer is "Yes," give permit numbers, names and addresses.

13. This application must be signed by the Owner, if a natural person; in the case of an Association, by a member thereof; in case of a Partnership or Company, by all partners and/or owners; in the case of a Corporation, by an executive officer thereof or some person specifically authorized by the Corporation to sign the Application, to which shall be attached the written evidence of such authority.

Sports Arcade

By Hymie Wiseman Member of Firm  
Signature Title

Lev Farrell Member of Firm  
Signature Title

Signature Title

14. Date: Nov 20 1947  
247  
(Do not write in spaces below)

| CLASSIFICATION |                          |          |      |                 |                |                           |  |
|----------------|--------------------------|----------|------|-----------------|----------------|---------------------------|--|
| COUNTY         | TAXPAYER'S PERMIT NUMBER | Business | Town | Popula-<br>tion | Owner-<br>ship | Number<br>of<br>Locations |  |
| 77             | 20502                    | 62       | 2    | 1               | 2              | 1                         |  |

PB-14006

Preliminary Permit Issued by \_\_\_\_\_

where, and that his said attestation is in due form of law, and by the proper officer.

Given under my hand this 24th day of September A. D. 1954.

C. EDWIN MOORE,  
Judge of the Ninth Judicial District of Iowa.

STATE OF IOWA,  
Polk County, ss:

I, Michael H. Doyle, Jr., clerk of the district court in and for said county, in the State aforesaid, do hereby certify that C. Edwin Moore whose genuine signature appears to the foregoing certificate, was at the time of signing the same, Judge of the District Court of the Ninth Judicial District of Iowa, duly commissioned and qualified, that full faith and credit are, and of right ought to be given to all his official acts as such, in all courts of record and elsewhere.

In testimony whereof, I have hereunto set my hand and affixed the seal of said Court, at my office in Des Moines, this 24th day of September A. D., 1954.

[SEAL]

MICHAEL H. DOYLE, Jr., Clerk.

Vertical handwritten text on the left margin: "Mailed Return - returned 11/27/47" and "Returned 11/28/47".

## IN THE DISTRICT COURT OF IOWA IN AND FOR POLK COUNTY

GLADYS RAND, PLAINTIFF, v. LOU FARRELL, DEFENDANT

Equity No. 57037

## PETITION IN EQUITY

Comes now the plaintiff in the above entitled cause and for cause of action against the defendant states:

1. That the plaintiff is a citizen and resident of the city of Des Moines, Iowa.
2. That the plaintiff is the owner and operator of an eating house and night-club located on lot 1 in Geil Place in the town of Fort Des Moines, Polk County, Iowa, known as the Mainliner Night Club and numbered 6001 Southwest 21st Street.
3. That on the 6th day of October 1942, the defendant came to the plaintiff's place of business and by threat, intimidation, force, and violence, attempted to force the plaintiff to pay the defendant money.
4. That the defendant then and there displayed a revolver and threatened to shoot and kill the employees of said place of business if his demands were not complied with.
5. That the defendant threatens to continue said intimidation, force, and violence in the future for the purpose of compelling a compliance with his wrongful illegal demands.
6. That the said conduct of the defendant will injure the plaintiff's business and will cause an injury to the plaintiff, and that is one of the objects sought by said defendant.
7. That plaintiff has no plain, speedy, or adequate remedy at law and that the defendant, if not restrained by order of this court, will do irreparable injury.

Wherefore, the plaintiff having no plain, speedy, or adequate remedy at law, asks that a temporary restraining order be issued, restraining the defendant from coming upon the plaintiff's property described above and from any way molesting or injuring the plaintiff and from creating any disturbance in or adjacent to said property and place of business of plaintiff, and that on final hearing said restraining order shall be made permanent, and for such other and further relief as may be just and equitable in the premises, and for costs.

STIPP, PERRY, BANNISTER & STOEZINGER,  
*Attorneys for Plaintiff.*

Subscribed in my presence and sworn to by Gladys Rand before me this \_\_\_\_\_ day of October 1942.

\_\_\_\_\_  
*Notary Public in and for Polk County, Iowa.*

STATE OF IOWA,  
*Polk County, ss:*

I, Gladys Rand, being first duly sworn, on oath depose and say that I am the plaintiff above named; that I have read the above and foregoing petition; and that the statements therein contained are true and correct as I verily believe.

GLADYS RAND.

Subscribed in my presence and sworn to before me this 7th day of October 1942.

[SEAL]

ROBERT J. BANNISTER,  
*Notary Public in and for Polk County, Iowa.*

## IN THE DISTRICT COURT OF IOWA IN AND FOR POLK COUNTY

GLADYS RAND, PLAINTIFF, v. LOU FARRELL, DEFENDANT

Equity No. 57037-103

## RESTRAINING ORDER

Be it remembered that this matter coming on before the court for hearing upon the plaintiff's petition and motion for temporary restraining order,

It is, therefore, ordered that the defendant, Lou Farrell, is hereby restrained from going upon the premises known as lot one (1) of Geil Place, an official plat according to the recorded plat thereof in town of Fort Des Moines, Polk

County, Iowa, and from going to or entering the plaintiff's place of business known as the Mainliner Night Club and numbered 6001 Southwest 21st Street, Polk County, Iowa, and the defendant is strictly forbidden and restrained from molesting or injuring the plaintiff in person or property in any manner or her employees at said place of business, and from creating a disturbance or breach of the peace thereon or thereat, and restrained from disturbing the peace and quiet at said place of business either upon said grounds or adjacent thereto.

Signed in open court this 7th day of October 1942.

F. S. SHANKLAND, *Judge.*

STATE OF IOWA,  
Polk County, ss:

I hereby certify that I received the within order on the 7th day of October 1942 and on the 7th day of October 1942 I personally served the same on the within named defendant, Lou Farrell, by reading the original to Lou Farrell and delivered to him a true copy thereof. All done in Polk County, Iowa.

VANE B. OVERTURFF,  
*Sheriff of Polk County, Iowa.*  
By JOHN R. STRAIT, *Deputy.*

Mileage, \$15 ; county, \$2 ; paid by plaintiff's attorney.

IN THE DISTRICT COURT OF THE STATE OF IOWA IN AND FOR POLK COUNTY

ORDER OF DISMISSAL OF EQUITY CASES

Now on this 23d day of December 1943 it appearing to the court that the following cases indicated by their respective numbers have been published in the Des Moines Daily Record for a period of 10 full days prior hereto with the notice that the same would be dismissed unless good cause to the contrary was shown.

It is therefore hereby ordered that the following cases be and the same are hereby dismissed at the plaintiff's costs.

|       |       |       |
|-------|-------|-------|
| 55715 | 56837 | 57183 |
| 56939 | 56975 | 56904 |
| 57147 | 57176 | 56992 |
| 56961 | 56865 | 56905 |
| 57158 | 56985 | 57037 |

LOY LADD, *Judge.*

Filed as of December 24, 1943.

The CHAIRMAN. We will now recess until 1 : 30 this afternoon.

(Whereupon, at 11 : 45 a. m., the committee recessed until 1 : 30 p. m., the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

I would like to put a letter into the record from the Meadowbrook Corp. of Indianapolis, Ind., addressed to me, signed by Thomas J. O'Brien, vice president, together with a copy of a wire that I sent to Mr. O'Brien in response to his letter.

(The information referred to follows: )

MEADOWBROOK CORP.,  
*Indianapolis Ind., September 22, 1954.*

Hon. HOMER E. CAPEHART,  
*United States Senate, Washington, D. C.*

DEAR SENATOR CAPEHART: During recent meetings held here in Indianapolis by your committee, you offered to allow anyone heard to supplement their testimony if they so wished. I would like to take advantage of this generous offer.

I feel the public was given an unfair picture of our operation in the financing of the Meadowbrook Apartment Development, because of the brevity of our examination and the extremely short notice given us. As a result, I appeared before your committee without our records and with no knowledge regarding what phase of our operation in which your committee would be interested.

There is no detail in the operation of Meadowbrook Corp. that we wish to conceal.

Respectfully yours,

MEADOWBROOK CORP.,  
THOMAS J. O'BRIEN,  
Vice President.

Thomas J. O'Brien, Meadowbrook Corp., Indianapolis, Ind. (also try residence).

Re your letter September 22, which delayed reaching me because attending hearings New York all last week. Presently scheduled hearings end Friday, October 8. Delighted to grant your request to be heard further by this committee on either Thursday or Friday.

Senator Homer E. Capehart, Senate Banking and Currency Committee, FHA Investigation.

Mr. SIMON. Senator, you will recall in Chicago because of inadequate time we didn't get the testimony of Lou Farrell and Jack Wolfe. In order to complete the record, I would like to have you include in the transcript of the public hearings their executive session. They have already been heard in public, but not quite as fully as in the executive session.

The CHAIRMAN. Without objection, they will be made a part of the public record.

(The testimony of Mr. Wolfe in executive session follows:)

#### EXECUTIVE SESSION

The hearing convened, pursuant to call, in room F-41, Capitol Building, at 2:20 p. m., Friday, July 30, 1954.

Staff members present: Messrs. Kenney, Sells, and Carr.

Also present: Mr. Jack Wolfe, 5400 Harwood Drive, Des Moines, Iowa.

Mr. Robert C. Cochran, notary public.

Mr. COCHRAN. Will you raise your right hand?

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WOLFE. I do.

(Thereupon, at 2:21 p. m., a recess was taken to room 301, Senate Office Building, at 2:30 p. m.)

Mr. SELLS. Mr. Wolfe, you have been sworn?

Mr. WOLFE. Yes, sir.

Mr. SELLS. Do you want to give the reporter your full name for the record?

Mr. WOLFE. Jack Wolfe.

Mr. SELLS. That is W-o-l-f-e; is that correct?

Mr. WOLFE. Yes.

Mr. SELLS. What is your residence address?

Mr. WOLFE. 5400 Harwood Drive, Des Moines, Iowa.

Mr. SELLS. Mr. Wolfe, you were asked to come here to testify in executive session of the Senate Banking and Currency Committee. You know that?

Mr. WOLFE. Yes, sir.

Mr. SELLS. You are also aware the Senate Banking Committee is investigating matters which have to do with the operation and ad-

administration of the National Housing Act and the Federal Housing Authority. That is the subject of this inquiry.

Mr. Wolfe, what is your occupation at the present time?

Mr. WOLFE. At the present time I have no occupation.

Mr. SELLS. May I ask what you do for a living?

Mr. WOLFE. Well, I am living on capital.

Mr. SELLS. Accumulated income?

Mr. WOLFE. That is correct.

Mr. SELLS. Generally speaking, what line of work would you say you have been engaged in in the past?

Mr. WOLFE. Publishing, for 23 years.

Mr. SELLS. Did you have a concern of your own?

Mr. WOLFE. Yes, sir.

Mr. SELLS. What was that concern?

Mr. WOLFE. The Welch, Iowa, Printing Co.

Mr. SELLS. What kind of printing did you do?

Mr. WOLFE. We did general job printing, newspaper work. I owned a newspaper and magazine, and the general run of house organs.

Mr. SELLS. Mr. Wolfe, we received information at various times in the past, I would say probably in the last 8 to 10 years, that you have been associated with various firms in what we call generally the home-improvement field?

Mr. WOLFE. That is correct.

Mr. SELLS. Could you give us a list of the names of those firms that you have been associated with?

Mr. WOLFE. Well, General Builders, Inc.

Mr. SELLS. Where did that concern do business?

Mr. WOLFE. In Des Moines, Iowa.

Universal Supply Co., Des Moines, Iowa; Aluminum Associates—

Mr. SELLS. May I have that again?

Mr. WOLFE. Aluminum Associates, I think it was, and Universal Builders, Inc., out of Omaha, Nebr.

Mr. SELLS. How about National Builders?

Mr. WOLFE. Yes. I was associated with National Builders at its inception for about 2 months.

Mr. SELLS. Were there any other concerns in the home-improvement field that you had a connection with?

Mr. WOLFE. No, sir.

Mr. SELLS. Those five is all?

Mr. WOLFE. That is right.

Mr. SELLS. Was your concern or connection with those businesses as an owner?

Mr. WOLFE. As part owner.

Mr. SELLS. Part owner?

Mr. WOLFE. Yes, sir.

Mr. SELLS. You had other associates, then, that were in business with you?

Mr. WOLFE. Yes, sir.

Mr. SELLS. Were they the same associates in the case of all five of the firms?

Mr. WOLFE. No.

Mr. SELLS. I would like to have the names, then, if you can give them to us, of those people that you did business with, or were in business with, I should say.

Mr. WOLFE. The ones in business with me in General Business, Inc., and Universal Supply Co. is, I. M. Cohen.

Mr. SELLS. Is his first name Isadore?

Mr. WOLFE. Yes.

Mr. SELLS. Where is he from?

Mr. WOLFE. Des Moines, Iowa.

Mr. SELLS. That takes care of two of them?

Mr. WOLFE. In Aluminum Associates, which was a short-lived company, there was Lou Farrell, I. M. Cohen, and Louis Shulman.

Mr. SELLS. We have three of them.

Mr. WOLFE. And Universal Builders, Inc., out of Omaha, was the same as Aluminum Associates, Inc.

Mr. SELLS. Have you covered all five of them?

Mr. WOLFE. I think so.

Mr. SELLS. You had the same associates in those last 2 you gave so I think that covers all 5.

Were all five of those concerns corporations?

Mr. WOLFE. No. The Universal Supply Corp. was a partnership.

Mr. SELLS. And the rest of them?

Mr. WOLFE. Were corporations.

Mr. SELLS. Were they all organized in the same State?

Mr. WOLFE. No. Universal Builders, Inc., of Nebraska, was organized in Omaha.

Mr. SELLS. Generally speaking, what geographical area did those five corporations do business in, Mr. Wolfe?

Mr. WOLFE. We tried to do business only in Nebraska and Iowa, but some of our men did get into Kansas.

Mr. SELLS. What period of time did the operations of those five concerns cover?

Mr. WOLFE. From the fall of 1951 through the spring, I think, of 1953.

Mr. SELLS. Were all of the corporations in operation and actually carrying on business at the same time?

Mr. WOLFE. Yes. Some were short-lived. They were in operation—at one time they were all in operation at the same time.

Mr. SELLS. Have they all been dissolved now, or for all practical purposes are they still alive?

Mr. WOLFE. No. We discontinued all of our business, but I don't think the corporations have been dissolved.

Mr. SELLS. Formally dissolved?

Mr. WOLFE. That is right.

Mr. SELLS. When did you stop doing business in this home improvement field, Mr. Wolfe?

Mr. WOLFE. We stopped doing business, I think, in the spring of 1953.

Mr. SELLS. In addition to an ownership interest in all of these five corporations, did you also hold a position as an officer or a manager?

Mr. WOLFE. Yes, sir. In General Builders, Inc.

Mr. SELLS. What was your position there?

Mr. WOLFE. For a short while I was general manager—president and general manager.

Mr. SELLS. How about the other four?

Mr. WOLFE. The other four, I don't remember the officers. I don't think that I was on the payroll of any of them.

Mr. SELLS. Did you exercise direct supervision over the operation of those concerns?

Mr. WOLFE. Mr. Cohen and myself did.

Mr. SELLS. What is Mr. Cohen doing now?

Mr. WOLFE. He is an accountant. He has an accounting office.

Mr. SELLS. Where is his office?

Mr. WOLFE. Des Moines, Iowa.

Mr. SELLS. Are you a close friend of Mr. Cohens', Mr. Wolfe?

Mr. WOLFE. Well, I don't know whether you would classify it that way.

Mr. SELLS. How well are you acquainted with Mr. Cohen, and possibly with his family?

Mr. WOLFE. I know them very well.

Mr. SELLS. How many brothers does Mr. Cohen have?

Mr. WOLFE. That I don't know. I know that—one that I know of that has been a little mentally ill.

Mr. SELLS. Who is that?

Mr. WOLFE. I don't even know his name.

Mr. SELLS. Is that all you know of?

Mr. WOLFE. Yes. His immediate family, like his wife and children—

Mr. SELLS. Does Mr. Cohen come from that area originally, or is he from someplace else?

Mr. WOLFE. I think he came from that area originally.

Mr. SELLS. Do you know that as a fact?

Mr. WOLFE. No. I have been in Iowa for 22 years.

Mr. SELLS. Where are you from originally?

Mr. WOLFE. Detroit, Mich.

Mr. SELLS. Mr. Wolfe, did you give us the name of Dave Fidler as one of the individuals who was connected with National Builders?

Mr. WOLFE. No. Dave Fidler, from my understanding, worked for National Builders long after we were out of the picture.

Mr. SELLS. You say long after you were out of the picture. What did you do, sell out your interest in that concern?

Mr. WOLFE. Both Mr. Cohen and myself sold out our interest in National Builders before we purchased General Builders, Inc.

Mr. SELLS. In other words, so far as you know, Dave Fidler had no connection with National Builders at any time while you were connected with it?

Mr. WOLFE. That is correct.

Mr. SELLS. How about Florin DiPaglio and the Builders Supply Co.?

Mr. WOLFE. Florin DiPaglio—both Florin and Ray DiPaglio worked for us before they organized their own building supply company.

Mr. SELLS. What capacity?

Mr. WOLFE. Salesman.

Mr. SELLS. How about Lou Ferrell in the Interstate Builders?

Mr. WOLFE. As the Interstate Builders, I know nothing about his operation. He never worked for us. He had a slight interest in our Omaha operation, which we later sold.

Mr. SELLS. Which concern was that?

Mr. WOLFE. Universal Builders, Inc., of Omaha.

Mr. SELLS. That was Universal Builders. He had a slight interest, you say, in that?

Mr. WOLFE. Yes.

Mr. SELLS. He sold that interest out?

Mr. WOLFE. No. Mr. Cohen and myself sold the entire company to a group of his associates in Omaha and stepped out of the picture.

Mr. SELLS. You are aware, are you not, Mr. Wolfe, that these three individuals that I mentioned, Lou Ferrell, Dave Fidler, and Florin DiPaglio might be said to have a somewhat unsatisfactory background?

Mr. WOLFE. That is true. I have had people say the same thing about me, also.

Mr. SELLS. You raised a point I was going to ask. You are also undoubtedly aware that in many respects people have had reason to say that about you?

Mr. WOLFE. That is correct. In fact, for the record, that is why I called the force in one day and told them I was locking the doors. We were through, right in the midst—while we were doing business.

Mr. SELLS. Was that the sole reason, Mr. Wolfe, or was it you thought that you had made as much as you were going to make in a short time out of this home-improvement business and wanted to get out?

Mr. WOLFE. No; it is just the opposite. We didn't make anywhere near what we thought we could make, and our salesmen were making a lot of money, and we were being held responsible for the misdeed of our salesmen, and not being able to control these salesmen or to control the people the salesmen sold. We decided to get out of the business.

Mr. SELLS. By that, then, you as much as state that in fact your salesmen were engaged in, shall we say, unethical sales practices?

Mr. WOLFE. In connivance—I would say that was in connivance with people that they were doing business with. As an illustration, I tried to check each and every job of that force, being done or sold, or that we purchased from these men, and in going around checking the job I would ask the people if a contract I held in my hand, for example, was to their full understanding; the payments were so and so, and I would ask them whether our salesmen promised them anything or whether they gave them anything, and the customers told me, "No." We went ahead with the jobs.

Later I found that had they not only promised them the world with a small fence around it, or a large fence, but they also gave them cash to buy certain things, and when that came to my attention we worked very close with McBride, of the FHA, there. In fact, we used to hold meetings when McBride or one of his men would come in and talk to our boys and try to tell them that it is just as easy to sell it clean and you don't have to promise people anything in order to sell.

Mr. SELLS. Considering all five of these corporations, Mr. Wolfe, how many salesmen would you say you had employed?

Mr. WOLFE. Well, there is a big turnover in men.

Mr. SELLS. Well, generally, what was the size of your sales force, taking all five corporations?

Mr. WOLFE. Sometimes we would have 2 or 3, sometimes we would have 10 or 12. We found that the men carried around contract books for 2 or 3 other companies. If they felt like writing it on ours, they wrote on ours; if they felt like writing it on some other siding company, they wrote it on some other siding company.

Mr. SELLS. Mr. Wolfe, your five companies, I take it, dealt in the home-improvement field on a rather broad scale. In other words, you didn't restrict your sales approach to necessarily one type of job; is that correct?

Mr. WOLFE. We handled one type of job only. That is siding.

Mr. SELLS. That is all?

Mr. WOLFE. That is all we did.

Mr. SELLS. Any particular type of siding?

Mr. WOLFE. Aluminum siding. We tried to concentrate on aluminum siding.

Mr. SELLS. Was that true of all five corporations?

Mr. WOLFE. That was true of all of them. The only time we did any other improvement on a home was sometimes we would do window casing or steps, or something like that.

Mr. SELLS. You didn't construct any additions to buildings or anything like that?

Mr. WOLFE. No, sir.

Mr. SELLS. You did no roofing work, painting work?

Mr. WOLFE. Once in a while we would have a roof, along with the siding job, but no painting.

Mr. SELLS. What brand of siding did you handle, generally?

Mr. WOLFE. We handled generally All-Side aluminum.

Mr. SELLS. Who manufactures that?

Mr. WOLFE. All-Side Co., of Akron, Ohio.

Mr. SELLS. Is that a recent company in the aluminum-siding field?

Mr. WOLFE. I can't say. I am much more recent to the siding business. They were already an established business.

Mr. CARR. You did business with All-Side, of Akron?

Mr. WOLFE. Yes.

Mr. CARR. Did you do any business through distributors?

Mr. WOLFE. No. We dealt direct with the factory.

Mr. SELLS. Who is Michael Anton?

Mr. WOLFE. Michael Anton is a salesman who was working with the DiPaglio brothers as a team.

Mr. SELLS. Did he ever work for you?

Mr. WOLFE. Not directly. He was working for us through the DiPaglios.

Mr. SELLS. Do you want to explain that a little bit to me? He was writing jobs for you?

Mr. WOLFE. No; he wasn't writing jobs for us. The DiPaglios had 2 or 3 canvassers who would work for them in canvassing jobs and they would pay them direct. I think, if I am not mistaken, I think after the DiPaglios left Mike did sell 1 job, maybe 2 jobs, for us before he joined them again in their new organization. I am not positive of that fact.

Mr. SELLS. Are they the ones that took over General Builders?

Mr. WOLFE. No. When I discontinued General Builders no one took it over. I just closed the doors and discontinued.

Mr. SELLS. The reason I ask that question is I have a copy of what purports to be or what purports to be a copy of a letter distributed by General Builders, Box 178, U. P. Station, Des Moines, Iowa, apparently addressed to homeowners, soliciting inquiries regarding siding jobs, and making what appears to be the approach that "We

have come to call in the model home approach." That bears the signature "Michael Anton."

Mr. WOLFE. That was put out without our knowledge by the DiPaglios. We didn't know about it until long afterward when it was called to our attention.

Mr. SELLS. As a result of the circulation of this letter did you receive any orders for All-Side baked enamel aluminum siding?

Mr. WOLFE. I cannot answer that question because the leads, or the return postcards, came to a box number that we had no control over, that we did not rent.

Mr. SELLS. Was it ever brought to your attention by any of the customers up to that time that they had received this letter?

Mr. WOLFE. It wasn't brought to our attention by the customers, but I took it up with the post office and told them they had no authority to issue a box in our name unless we requested it.

Mr. SELLS. Who brought it to your attention this letter had been distributed?

Mr. WOLFE. One of the salesmen in canvassing happened to run into a home that had received it. He picked it up and asked if he could have it, and brought it to our attention. In fact, I may go on record as saying that it also came to our attention that this same letter was being used after the DiPaglios went in for themselves, because they had some stationery, they had this all printed up, and they had the brochure all printed up, and they didn't want to waste it, and at that time I called the DiPaglios into the office and I think I made a deal with them to pay them for the loss, so as to keep them from using it.

Mr. SELLS. Who is Leonard Kline, Mr. Wolfe?

Mr. WOLFE. Leonard Kline was a short-lived manager that worked for us at one time, for about 4 or 5 months.

Mr. SELLS. Sales manager of General Builders?

Mr. WOLFE. That is correct.

Mr. SELLS. Was he sales manager for any of the rest of these corporations?

Mr. WOLFE. No, sir. He has since passed away.

Mr. SELLS. He has since passed away?

Mr. WOLFE. Yes. He died here about 2 months ago.

Mr. SELLS. Isn't it a fact, Mr. Wolfe, that, partly at least, as a result of practices which were engaged in by salesmen who presumably were under the control of Mr. Kline at the time he was sales manager of General Builders, you and the General Builders and Mr. Kline were placed on the FHA precautionary list?

Mr. WOLFE. No. I don't think that is the reason, sir. I think the 2 jobs, according to my understanding, that placed us on the precautionary list, were, I think, 1 job was a chap by the name of Powers, that forged his father's endorsement on the application without our knowledge, and another one was one where the old lady couldn't sign but ABC called it to our attention and my understanding is their manager went out there and got her to put an X in, while their daughter was at the home.

Mr. CARR. Allied Building Credits?

Mr. WOLFE. Yes.

Later I understand she was declared mentally unbalanced. It was under the supervision of Allied Building Credits.

Mr. SELLS. How many of these concerns of yours ultimately did end up on the precautionary list?

Mr. WOLFE. I think General Builders is the only one. I think for the amount of business we did, we tried to conduct ourselves in a very clean manner and we had very few reactions, or complaints. We were the only outfit that kept a true—to answer complaints, if a corner fixing job came up after a while, for interest.

Mr. SELLS. How much business did you do in these five concerns?

Mr. WOLFE. I would say a million or a million and a half.

Mr. SELLS. For all five concerns?

Mr. WOLFE. Some of those were very short lived.

Mr. SELLS. For how long?

Mr. WOLFE. Over a period of a year and a half or 2 years.

Mr. SELLS. That is a million dollars in siding of homes. Is that your testimony?

Mr. WOLFE. That is right. I am not giving you an accurate figure, because I am just guessing at it.

Mr. SELLS. Was there any particular reason why some of these concerns were so short lived?

Mr. WOLFE. I can explain that to you. We woke up to the fact that we made an error in associating ourselves with Mr. Lou Ferrell, in Omaha, and after a consultation with Mr. Cohen, we decided the best way to get out of it gracefully would be to sell the business, and the Aluminum Associates at that time were discontinued because that was organized at the time we organized Omaha as a buying outfit for the 2 businesses, as a wholesale buying outfit and when we sold Omaha we just discontinued Aluminum Associates, which is the reason those 2 businesses were short lived.

Mr. SELLS. Was all your business—let's put it this way—was the bulk of your business written for the purpose of discounting under FHA loans?

Mr. WOLFE. Yes.

Mr. SELLS. You didn't actually seek cash business in preference to FHA title I business?

Mr. WOLFE. Yes, we did have numbers of cash jobs.

Mr. SELLS. Yes, but is it fair to say that the majority of it was under title I of the FHA?

Mr. WOLFE. Yes.

Mr. SELLS. FHA title I loans?

Mr. WOLFE. That is correct.

Mr. SELLS. Who discounted most of the paper?

Mr. WOLFE. Allied Building Credits. I would like to put in the record here that I think we have one of the cleanest operations in siding in the country, or we tried to run it that way.

Mr. SELLS. Mr. Wolfe, I am not going to fence with you. I want to make this clear: You were asked to come here to an executive session for the reason that this committee attempts to be scrupulously fair to all witnesses. We have information which indicates a conclusion quite to the contrary to the one you just put in the record. We have a lot of information which has been brought to the attention of this committee that indicates that you were, over that short period of time, at least, one of the biggest home improvement operators in the siding field, and that insofar as unethical sales practices are

concerned, you and your concerns were one of the greatest offenders.

Mr. WOLFE. That is wrong.

Mr. SELLS. As I said, I am not going to fence with you.

Mr. WOLFE. You may have that information. I don't know how you got it, but at no time did we condone unethical selling.

Mr. SELLS. What efforts did you make actually to control the efforts of your salesmen or your representatives or independent contractors? I don't care what you call them.

Mr. WOLFE. The efforts we made is in holding meetings, that we tried to instill them with the idea that it is just as easy and as profitable to sell clean, and leave a good taste, because we wanted to remain in business and as a result of that, we had 2 or 3 times, we had McBride or somebody from his office come to our luncheon meetings and address them.

Mr. SELLS. Who was McBride?

Mr. WOLFE. He is head of the FHA.

Mr. SELLS. Local director of the FHA?

Mr. WOLFE. Yes.

In spot-checking jobs—for instance, as an illustration, I went out to spot check a job in Des Moines. I found the job being put up. The man that bought the job is standing right there. He likes the aluminum siding. I talked with him. I had the contract with him. I said, "Is this contract your entire understanding of the contract?" I said, "You will pay so much after the first 45 days, et cetera."

At the bottom of our contracts we had in 24 point type:

No verbal agreements accepted. Everything must be put in writing in the contract.

We had that right on the contract.

In talking to this gentleman, he started telling me that it is going to be a swell job and he is tickled to death he went into it. I said, "Why?" He said, "The salesman promised me \$75 for every job they would do within a radius of 20 miles."

Mr. SELLS. That is the so-called bonus or model homes?

Mr. WOLFE. That is correct. I asked him, I said, "Did the salesman put it in writing?"

He says, "No."

I says, "How can you be so gullible as to accept anything like that verbally when the contract, in large type—" it wasn't hidden in 6-point type—it was in large 24-point type—"tells you that the company will accept no verbal agreements?"

Mr. SELLS. What did he say about it? He said the representation had been made?

Mr. WOLFE. That is right.

Mr. SELLS. Did you attempt to discipline that particular salesman?

Mr. WOLFE. We fired him. That is one of the reasons we had a large turnover.

Mr. SELLS. Let me ask you this: What kind of an agreement or understanding did you have with these salesmen, Mr. Wolfe? Did you have some kind of an agency contract with them or did you have an employment contract?

Mr. WOLFE. Our deal was this: That if they went out and sold a job and we gave it to them—in other words if a job took 20 squares, and we parred it out to them for \$46 a square and on that \$46 a square

we furnished labor and the salesman or the contractor or the applicator was to bring in a completion slip when the job was completed, and our fee on it was just so much a square.

Everything over that was their commission, but we had a top that we did not allow them to exceed.

Mr. SELLS. What was that top?

Mr. WOLFE. \$100, which was the ultimate top. The average was about \$80.

Mr. SELLS. Taking your figure of \$46 and anything above that as being a salesman commission with the top of \$100, it was possible for the salesman's commission to equal the actual return to you as the supplier?

Mr. WOLFE. In some cases it was more, for the reason——

Mr. SELLS. 46 percent is not a half of a hundred percent.

Mr. WOLFE. That is one of the reasons we decided to discontinue the business. For instance, a salesman would bring in a job of 12 squares for \$960. We would do the job and the job would only take 7 squares. The company didn't get paid for 12 squares. We just got paid for the actual 7 squares we put on the job and the salesmen or the seller of the job had all the gravy.

Mr. SELLS. You say the company only got paid for the 7 squares. You had the contract. You had the money. Why couldn't you have held your share of the proceeds for the whole 12 squares?

Mr. WOLFE. Our agreement with the salesman worked sometimes the other way around also. He would bring a job for 12 squares that took 16 squares.

Mr. SELLS. That still doesn't answer my question, Mr. Wolfe. You had the money and you had the contracts.

Mr. WOLFE. That is correct. Our arrangement with them was to charge them on the actual squares the job took.

Mr. SELLS. Was that arrangement in writing?

Mr. WOLFE. No, I don't think any——

Mr. SELLS. Let me ask this specific question. I want to ask you to think about it before you answer it. Let's take your case which you brought up. I didn't bring up the case, where your salesman went out and sold a job and got a contract requiring 12 squares, and you tell me that you actually only applied 7 squares. Did you ever go back to the homeowner and tell the homeowner?

Mr. WOLFE. Yes; we did. In several instances, we called the homeowner and told him his job would cost him two or three hundred dollars less than he contracted for, because we felt that the price was too high on the job.

Mr. SELLS. Did you tell him why?

Mr. WOLFE. Yes; because it took less squares than we figured.

Mr. CARR. Had you already paid the salesmen?

Mr. WOLFE. Not in those cases; no. We lost several salesmen through doing that also.

Mr. SELLS. I take it there were other cases though, where you had paid the salesmen and then found out that the job actually required less material than what the salesman had estimated. In those cases you didn't attempt to notify the homeowner?

Mr. WOLFE. No; on the other hand——

Mr. SELLS. Answer that question first if you will, Mr. Wolfe.

Mr. WOLFE. Will you put that to me again?

Mr. SELLS. There were cases in which the contract, as brought in by the salesman, called for more material than what you actually applied, and cases wherein when that happened you did not notify the homeowner?

Mr. WOLFE. That is true, but there were also cases, and there were plenty more of those cases, where the amount called for took more squareage.

Mr. SELLS. All you are telling me when you tell me that is, insofar as you are concerned it averaged out but that doesn't take care of the individual homeowner who paid for 12 squares and only got 7 squares on his house; isn't that correct?

Mr. WOLFE. That is correct, but where there was discrepancy of that size, usually some arrangements were made.

Mr. SELLS. Wait a minute now, Mr. Wolfe. I want you to hold—you throw a lot at me here, but you qualify it to some extent. You say usually some arrangement was made. What arrangement was made?

Mr. WOLFE. A refund arrangement of some kind, but the majority of cases, where there was an overage or underage, was only half a square or square or square and a half. It was very seldom that it exceeded the underage or the overage exceeded anywhere from a half to say, 2 squares.

Mr. SELLS. Well, at \$46 a square, isn't that the figure that you used?

Mr. WOLFE. Well, 46, and aluminum went up from \$46 to \$56 a square.

Mr. SELLS. Two squares is \$100, and I believe it is fair to say that to an individual homeowner, \$100 might be a lot of money?

Mr. WOLFE. That is correct.

Mr. SELLS. There were some cases where the homeowner paid \$100 for material that he never got?

Mr. WOLFE. Offhand I would say "Yes."

Mr. SELLS. I am trying, Mr. Wolfe, believe me, in your interest and my own, I am trying to cover a lot of territory in a short time and you can understand that.

When these salesmen came to you, Mr. Wolfe, and wanted to represent any one or all of your concerns, did they fill out some kind of an application blank with you?

Mr. WOLFE. Yes; they did. We had a contract form also that they filled out on each particular job, showing that they were a subcontractor, or an independent contractor—every job that we purchased from them they signed it.

Mr. SELLS. We can dispose of that status for our purposes by this: Did you withhold any taxes or any social security?

Mr. WOLFE. No.

Mr. SELLS. Did you pay any social security or withholding taxes on any of these salesmen?

Mr. WOLFE. No.

Mr. SELLS. So as far as the situation was concerned as between you and them, they were independent contractors?

Mr. WOLFE. That is right.

Mr. SELLS. Still before you would let somebody go out and represent themselves as a representative of your company, you required them to come in and at least talk to you and make some kind of an application to you?

Mr. WOLFE. That is true.

Mr. SELLS. Did you interview them?

Mr. WOLFE. I would like to answer that question this way: When I entered into this sort of business, I had my publishing plant and at no time at the start did I contemplate running any of these companies myself. I was a novice. I was just as naive as some of the gullible customers.

Mr. SELLS. As far as this business?

Mr. WOLFE. As far as this business is concerned, that is correct.

I did not take actual personal hold of this business until I was disillusioned by so many of the men that I had trying to run the business for me.

Mr. SELLS. Did you ever get disillusioned with Isadore Cohen?

Mr. WOLFE. Not during that time in that business; no.

Mr. SELLS. Since then?

Mr. WOLFE. A little bit.

Mr. SELLS. Why?

Mr. WOLFE. It is personal.

Mr. SELLS. What experience did Mr. Cohen have in this business prior to the time the two of you associated in it?

Mr. WOLFE. He had a little more than I did.

Mr. SELLS. By a little more, what? He had already been in the business?

Mr. WOLFE. He had had about a year experience previous to the time that he asked me to join him in this business. It was through Mr. Cohen that I got into the business.

Mr. SELLS. Did you ever meet Harry Cohen?

Mr. WOLFE. Harry Cohen?

Mr. SELLS. Yes.

Mr. WOLFE. Harry Kane?

Mr. SELLS. Yes.

Mr. WOLFE. I met him twice.

Mr. SELLS. When?

Mr. WOLFE. I met him once in Chicago at the All-Side office, for about 5 or 10 minutes, just an introduction and then I met him when he stopped off in Des Moines and asked us for a job, which was another about 5 minutes. Of course I told my man no. He never worked for us.

Mr. SELLS. Isn't he in fact related to Isadore?

Mr. WOLFE. No.

Mr. SELLS. Are you sure about that?

Mr. WOLFE. I am almost positive about that. I mean——

Mr. SELLS. You were telling me, Mr. Wolfe, and I think it is an interesting part of the story to us, you were telling us that you had no experience in this home-improvement business before you got into it.

Mr. WOLFE. That is right.

Mr. SELLS. I had asked you what you did when these salesmen came in and wanted to represent your firm and I think you were starting out to give me an explanation of what you did.

Mr. WOLFE. Yes; we requested them as to who they worked for and we tried to check up——

Mr. SELLS. Were they required to put that information down on paper in writing?

Mr. WOLFE. In some cases they did. I mean, we had an application form, yes, an employment application form.

Mr. SELLS. What information did that employment application form call for?

Mr. WOLFE. The way we check usually—you want a frank and honest answer on this—

Mr. SELLS. I would like it.

Mr. WOLFE. So I would call Mr. Lou Eisen, who is the All-Side representative in Chicago, and who had his finger on the pulse of the siding business all over the country, and who had been in the business for so many years and he knew most of the salesmen and in fact salesmen were usually sent to us by Mr. Eisen, asked for their capabilities and asked whether they were clean.

Mr. SELLS. How long have you known Lou Eisen?

Mr. WOLFE. I will say a matter of 4 or 5 years.

Mr. SELLS. Did you meet him after you got into this business or before?

Mr. WOLFE. I met him casually once previous to the time I got into this business, in Des Moines, but at the time I met him I didn't know what business he was in. He had a business of his own of this kind in Des Moines at one time, and I remember meeting him casually down at the Standard Club, but I did not know what his business connections were at the time that I met him. It was only through the siding business that I really met him.

Mr. SELLS. How well do you know Mickey Cohen?

Mr. WOLFE. I never met the gentleman. I don't know him at all.

Mr. SELLS. Do you know who he is?

Mr. WOLFE. Yes, I know who he is, but I never met him.

Mr. SELLS. Are you sure about that, Mr. Wolfe?

Mr. WOLFE. I am positive, positive. At no time did I ever meet Mickey Cohen.

Mr. SELLS. This application form that your salesmen filled out, did it call for any previous arrest or criminal records?

Mr. WOLFE. No.

Mr. SELLS. Let's get right down to cases.

Mr. WOLFE. No, it didn't.

Mr. SELLS. Did you ever make any inquiry of anybody or any legitimate attempt to find out what kind of people these men were that you were employing?

Mr. WOLFE. During the short time that I was running the company, yes; because if a man told me he worked in Rock Island, I would get on the telephone and call Rock Island and ask the siding man he worked for as to how, what, when, and where.

Mr. SELLS. Were you ever told that some of these fellows didn't have very good reputations?

Mr. WOLFE. Yes. Those that didn't have good reputations we didn't hire.

Mr. SELLS. Are you sure about that, Mr. Wolfe?

Mr. WOLFE. Well, as far as my personal connections with the company, I will say "Yes."

Mr. SELLS. I will accept that from you, but if you disclaim that responsibility, Mr. Wolfe, who in your organization would take responsibility for employing some of these rather shady characters that were employed by your company?

Mr. WOLFE. Well——

Mr. SELLS. Was that Mr. Cohen's fault or Mr. Kline's fault or was that Lou Ferrell's fault?

Mr. WOLFE. No. Lou Ferrell was never connected with us in Des Moines at all.

Mr. SELLS. How about Nebraska?

Mr. WOLFE. When we bought General Builders, for instance, there was a young fellow working there by the name of Harry Stroiman. We bought the company from Dick Richards, who had built the company up. Harry Stroiman was one of the salesmen who had had experience in operating companies of this kind. Now we bought this company with the understanding that Harry Stroiman would stay there and act as general manager, and run it, because neither Mr. Cohen nor myself had sufficient knowledge of the business or the ramifications of that kind of a business. If we would have had, or if I would have had, I doubt very much if I would have touched it with a 10-foot pole.

Mr. SELLS. Mr. Wolfe, I am not trying to be facetious. But in view of what we understand to have been some of your past activities, why would you have been so reticent about going into this line of business, if you had known so many of these things?

Mr. WOLFE. What do you understand are my past activities, outside of publishing?

Mr. SELLS. Well, I understand this, Mr. Wolfe: I understand you had the reputation of being somewhat of a gambler in that community and I don't mean in the casual sense of playing cards with a neighbor on a Saturday night. Let's put it this way: Professional gambler.

Mr. WOLFE. This is the first time that has ever come to my attention and you are absolutely wrong. I am not——

Mr. SELLS. We can leave that right there. Let's go back to the other point. You say if you had known any of these gentlemen were crooked, you wouldn't have gone into the business?

Mr. WOLFE. That is correct.

Mr. SELLS. But you did find out they were crooked afterward?

Mr. WOLFE. Yes; and we let them go as quick as we found out.

Mr. SELLS. Before you let them go they had had plenty of time to go out and sell contracts for you, hadn't they?

Mr. WOLFE. I imagine they had.

Mr. SELLS. As a matter of fact you found out later a lot of them had criminal records?

Mr. WOLFE. No——

Mr. SELLS. A lot of them had been not only accused but had been discharged from prior positions in this same field for engaging in the same type of practices?

Mr. WOLFE. No. You are under a misconception there. I never found—I don't think to this day I have ever found that anybody who has worked for us has had a criminal record of any kind, and as far as having a knowledge of their method of selling, I was naive enough to feel, and I honestly did feel so during the first year in business, that we were running one of the cleanest operations in the country.

Mr. SELLS. What later disillusioned you, Mr. Wolfe?

Mr. WOLFE. By going out and checking jobs, I found this: That the fault, not only was with the salesmen, but was just as much with the

customer, because the customer had just as much larceny in his heart as the salesman had or he wouldn't have accepted the salesman's word and kept things from the company that purchased this contract. We would call a customer up and say, "Was there any verbal understanding or did Mr. So-and-So promise you anything?" And the customer would say, "Absolutely not."

Mr. SELLS. Suppose you had a new man who came in as a salesman, Mr. Wolfe. Who in your organization, among your associates, took the responsibility of telling that man how he was to sell his product?

Mr. WOLFE. The man who was running the company, and we used to have meetings an average of once or twice and three times a week just to go over that and we had contests at one time.

Mr. SELLS. At one time you were general manager of one of these?

Mr. WOLFE. That is right.

Mr. SELLS. Which one was it?

Mr. WOLFE. Toward the end.

Mr. SELLS. Was that Aluminum Associates or General Builders?

Mr. WOLFE. General Builders. Aluminum Associates at no time did any work with the public.

Mr. SELLS. What did they do?

Mr. WOLFE. Aluminum Associates was organized as a wholesale buying outfit to act as the buying—

Mr. SELLS. Solely?

Mr. WOLFE. Yes.

Mr. SELLS. What did they do, buy it and sell it to you?

Mr. WOLFE. Yes. It was the same people and we bought it and sold it to Universad Supply Co., in Des Moines, General Builders, in Des Moines, and the Universal Builders, Inc., in Omaha.

Mr. SELLS. Why was it necessary to set up a separate buying concern? With three corporations selling in this field, couldn't you have bought direct from the manufacturer at the same price?

Mr. WOLFE. We did buy direct from the manufacturer. It just gave some of the other people who weren't interested in our General Builders, by investing in the Aluminum Associates, to participate in some of the profits.

Mr. SELLS. You were also one of the principal figures in Aluminum Associates?

Mr. WOLFE. Anyway, the thing didn't last over 6 weeks.

Mr. SELLS. Do you know what I think, Mr. Wolfe, and correct me if I am wrong, I think you set up Aluminum Associates for tax advantage.

Mr. WOLFE. That was one of the reasons, yes, if there were going to be any.

Mr. SELLS. You admit, then, at some time during this period, perhaps when you were general manager of General Builders, you were the one that was responsible for attempting to control the activities of these salesmen?

Mr. WOLFE. That is correct.

Mr. SELLS. Well, let's branch out. Let's go into a little broader question, Mr. Wolfe. Let's consider the operation of all five concern again. Let me ask you this: Isn't it a fact, Mr. Wolfe—I don't care when it was, whether it was after you had concluded you should get out of the business or while you were still in the business, you

did—let's put it this way: It did come to your attention that your salesmen were engaging in sales techniques which, among other things, involved the model-home approach, the bonus approach—isn't that correct?

Mr. WOLFE. What do you mean, it did come to our attention?

Mr. SELLS. Weren't there complaints made about that?

Mr. WOLFE. No.

Mr. SELLS. You told me in one case at least you went out to a job and the homeowner told you that is the basis on which the job had been sold?

Mr. WOLFE. Yes, but it wasn't because a complaint had been made. It was because I myself was checking.

Mr. SELLS. Did you ever receive any complaints to that effect from any source, either from the homeowner or possibly from the bank? I mean, by "bank," I think you told us you sold your paper to "ABC"?

Mr. WOLFE. We did do a little business with some banks. I can't say offhand that we hadn't received complaints, but I will say this: That every time that we attempted to do any advertising along those lines, we first took it up with the FHA local office for their O. K. and copy, and so forth.

Mr. SELLS. Did you ever receive any complaints from the Better Business Bureau about the practices your salesmen were engaged in?

Mr. WOLFE. No.

Mr. SELLS. Did you ever receive any complaints from ABC, Allied Builders Credit?

Mr. WOLFE. No, we didn't except on those two jobs that I mentioned previously.

Mr. SELLS. Did you ever receive any complaints from banks that you discounted paper with?

Mr. WOLFE. No. That is one of the reasons I was under the impression that we were doing a very clean job.

Mr. SELLS. Let's look at it another way. You say you did receive a lot of complaints, and you had a crew of men out servicing complaints. Were those workmanship complaints?

Mr. WOLFE. Yes.

Mr. SELLS. Who did the workmanship on these jobs?

Mr. WOLFE. Applicators.

Mr. SELLS. Were they men that were employed by you or on your payroll? Were they employees of any of these five companies?

Mr. WOLFE. No. They were working for whatever concerns could give them work. For instance, if a crew of applicators came to us Monday morning, and we had nothing for them, and they would go to one of the other siding companies to see whether they had anything for them.

Mr. SELLS. How many siding companies were operating in that area at this time? By "area" I mean that geographic area you described, Nebraska and Kansas. Do you have any idea?

Mr. WOLFE. I would say 30 or 40; maybe more.

Mr. SELLS. You had a lot of competition then?

Mr. WOLFE. Yes.

Mr. SELLS. These applicators, were they itinerants? Or were they just a crew of men that traveled around to go looking for a job putting up siding?

Mr. WOLFE. I wouldn't class them as itinerants, because when you had work for them, they worked pretty steadily and stayed around.

Mr. SELLS. What did the siding cost you per square, Mr. Wolfe?

Mr. WOLFE. I think it cost us—it averaged—we averaged it out to where we were, after the first 400 squares a month we could gross, or I would say net, about \$7 or \$8 a square.

Mr. SELLS. That was the cost to you. What did it cost you to get it applied, Mr. Wolfe?

Mr. WOLFE. All the way from \$9 to \$11 or \$12 a square.

Mr. SELLS. Let's take your top figure. You say it averaged \$7 a square; is that what you paid for the siding?

Mr. WOLFE. No. We paid an average of about \$25 a square for the siding.

Mr. SELLS. What was that figure you gave?

Mr. WOLFE. I said we netted.

Mr. SELLS. I didn't ask that question. I asked it the other way first, Mr. Wolfe. What did you pay for the siding?

Mr. WOLFE. Offhand, I don't have the figures here, but the actual siding cost us about \$25 to \$26 a square.

Mr. SELLS. Would that be a top price or would that be the average price?

Mr. WOLFE. It wouldn't be the top because we paid as high as \$26, \$27, \$28 a square.

Mr. SELLS. Why the variation in price? You tell us you bought this from the same company all the time, All-Side Aluminum.

Mr. WOLFE. Yes; because they would get an increase from the aluminum factory and they would raise their price \$1 a square to us.

Mr. SELLS. Let's take \$25, then, as an average price that you paid for this siding and you tell me you paid anywhere from \$9 to \$12 to get it applied. Let's take the middle figure of \$11—that is a little high maybe—so it actually cost you about \$36 or \$37 to put that siding on the house.

Mr. WOLFE. No; it cost us more than that.

Mr. SELLS. What other costs did you have?

Mr. WOLFE. There was foil that went underneath the siding; there were corners, there were backers.

Mr. SELLS. Where did you purchase that from?

Mr. WOLFE. From All-Side, Inc., but that was not included in the price of siding.

Mr. SELLS. Did you charge extra for those items in your contracts over the \$46 to \$50 per square price that you quoted me?

Mr. WOLFE. No, sir; we did not.

Mr. SELLS. Well, then, I suppose your testimony would be that it actually cost you somewhere between \$36 and maybe \$40 per square to put a siding job on a house; is that right?

Mr. WOLFE. I would say about \$36.

Mr. SELLS. And the price that you took as your portion—that is, the company's portion of the contract, was anywhere from \$46 to \$50?

Mr. WOLFE. That is right.

Mr. SELLS. It is your testimony, then, that you made only—

Mr. WOLFE. \$7 or \$8 a square.

Mr. SELLS. Can we say \$8 to \$10 a square?

Mr. WOLFE. Yes, well, gross, \$8 to \$10. That was our average.

Mr. SELLS. How many men did you actually employ in any of these corporations? What was the maximum of employees that you had on the payroll of any of these corporations?

Mr. WOLFE. What do you mean by—

Mr. SELLS. I mean, excluding your salesmen, whom you have told me were independent contractors, and excluding these applicators, who, as I understand, were almost in the same situation. They were crews that you hired.

Mr. WOLFE. The average office force was 2, 3, 4 at the most.

Mr. SELLS. At the most?

Mr. WOLFE. Yes.

Mr. SELLS. Would this be a fair statement, to say that—including yourself, and possibly from 1 to 2 associates in these corporations, the total—the corporation, including its employees who are actually on the payroll, maybe numbered from 6 to 8 people; is that right?

Mr. WOLFE. I would say from 5 to 8.

Mr. SELLS. Did you ever subcontract any of these siding jobs to a reputable local subcontractor? I mean a man doing business in the community in a building trade.

Mr. WOLFE. I don't think we have any. You see, the applicators have to be trained to put on aluminum siding jobs.

Mr. SELLS. Who trains them?

Mr. WOLFE. Well, they go out with other applicators, or they arrange with other applicators to work as helpers with them.

Mr. SELLS. What you are telling me, then, Mr. Wolfe, is they are itinerant in the same sense that an itinerant or traveling salesman wanders around from place to place?

Mr. WOLFE. They are itinerant, since we have no control over them outside of that one job. When they sign up for one job, after that job is finished, we have no control over the applicators. If they wanted to move over to DiPaglio next morning or to a job at the same time they were doing one for us—and we discovered that happening time and time again—we had no control over them.

Mr. SELLS. What would happen when you got a complaint the day after the crew had put up the siding that the job hadn't been finished?

Mr. WOLFE. We would get the crew and go back and rectify it.

Mr. SELLS. The same crew?

Mr. WOLFE. Yes.

Mr. SELLS. In every case?

Mr. WOLFE. I would say in 99 percent of the cases. If a complaint came in that short order, we still hadn't paid off the crew, and we wouldn't pay them off until the customer was satisfied with that job.

Mr. SELLS. Suppose the complaint didn't come in until a week after you had paid off?

Mr. WOLFE. If that crew was in the vicinity, or at hand, then we would complain to them, and tell them that we would not give them any more work unless they went out and rectified this one, and if they didn't, we had our own servicing men.

Mr. SELLS. In 1948 you were the subject of an investigation in Des Moines, were you not?

Mr. WOLFE. That is right, I was.

Mr. SELLS. You appeared before a grand jury?

Mr. WOLFE. No, sir, I never did.

Mr. SELLS. Are you sure about that?

Mr. WOLFE. Positive. It was a county attorney indictment.

Mr. SELLS. A county attorney indictment?

Mr. WOLFE. Yes.

Mr. SELLS. Were you named as the defendant in that indictment?

Mr. WOLFE. One of the defendants, yes.

Mr. SELLS. Were you brought to trial on that indictment?

Mr. WOLFE. No, sir, I never was.

Mr. SELLS. What happened to that indictment?

Mr. WOLFE. The other gentleman, the safety commissioner, was brought to trial, and the case was dismissed for lack of evidence. That is all there was to it.

Mr. SELLS. Dismissed against both of you?

Mr. WOLFE. Yes, sir.

Mr. SELLS. Were you at any time asked to testify in that case?

Mr. WOLFE. Yes. I was asked to testify.

Mr. SELLS. At the time of trial?

Mr. WOLFE. That is right.

Mr. SELLS. Did you testify in that case?

Mr. WOLFE. I did.

Mr. SELLS. Were you asked any questions at that time in that testimony that you refused to answer, Mr. Wolfe?

Mr. WOLFE. I did.

Mr. SELLS. What was the ground of your refusal?

Mr. WOLFE. Well, on the attorney's advice, constitutional rights, or whatever it was. It was so far back I don't remember, but that is my understanding of it.

Mr. SELLS. Is that the only criminal record you have?

Mr. WOLFE. No. I was mixed up in something when I was a kid. It goes way back over 30 years ago.

Mr. SELLS. Well, how old are you now, Mr. Wolfe?

Mr. WOLFE. Fifty-two.

Mr. SELLS. So, by "kid" you mean some time in your early twenties, is that right?

Mr. WOLFE. That is right.

Mr. SELLS. What was that Mr. Wolfe?

Mr. WOLFE. Forgery.

Mr. SELLS. Were you brought to trial on that?

Mr. WOLFE. I was.

Mr. SELLS. What happened there?

Mr. WOLFE. I was sentenced to reformatory for 6 months.

Mr. SELLS. Federal or State?

Mr. WOLFE. No; State.

Mr. SELLS. Which reformatory?

Mr. WOLFE. Ionia, Mich.

Mr. SELLS. Did you serve that sentence?

Mr. WOLFE. Yes, sir.

Mr. SELLS. Released?

Mr. WOLFE. Yes.

Mr. SELLS. Were you on parole or probation?

Mr. WOLFE. I was on parole.

Mr. SELLS. For how long?

Mr. WOLFE. I imagine a year's parole. I broke it and they sent me back for 6 months, and then after that I served out the parole and everything was all right.

Mr. SELLS. Is that the only criminal record you have, Mr. Wolfe?

Mr. WOLFE. No. I had the same thing in Mansfield, Ohio, and that is the only criminal record I have.

Mr. SELLS. When was that in Mansfield?

Mr. WOLFE. At the same time. In fact, it all happened in a period of about 2 years.

Mr. SELLS. In other words, there were two forgery charges?

Mr. WOLFE. That is right.

Mr. SELLS. What did they involve, forgery of checks?

Mr. WOLFE. Checks, small amounts of checks. I was 18 or 19 years old.

Mr. SELLS. That was the only matter you had until this matter in Des Moines in 1948?

Mr. WOLFE. That is right.

Mr. SELLS. What was the nature of the charge in the 1948 matter, bribery?

Mr. WOLFE. No. It was conspiracy.

Mr. SELLS. And you are absolutely sure that, with the exception of the 2 earlier incidents, say, 20 years ago, or 22 years ago, or 30 years ago, and this later one in Des Moines, Iowa, those are the only records you have?

Mr. WOLFE. I am positive.

Mr. SELLS. Have you ever been arrested for anything—for anything else?

Mr. WOLFE. No. I don't think I ever have.

Mr. SELLS. Mr. Wolfe, are you aware that at various times it has been alleged that some of the documents—I am thinking perhaps of FHA title I applications—the notes, which usually accompany those applications, and possibly even completion certificates on jobs which were performed by your company had been forged?

Mr. WOLFE. That is not correct.

Mr. SELLS. Are you aware that that allegation has been made?

Mr. WOLFE. No. I am not aware that the allegation has ever been made.

Mr. SELLS. Do you know whether any of those records were ever forged?

Mr. WOLFE. No, I don't. The only time that anything like that was ever called to my attention is in the Powers case, where the ABC claimed that the son had signed the father's name while the father was overseas, or in Europe.

Mr. SELLS. When your salesmen brought in a contract, they usually brought in with it an FHA title I loan application, did they not?

Mr. WOLFE. That is correct.

Mr. SELLS. And that loan application was usually signed?

Mr. WOLFE. That is correct.

Mr. SELLS. They also brought in with it a credit application?

Mr. WOLFE. That was all in one.

Mr. SELLS. It was a credit application and it had at the bottom a note?

Mr. WOLFE. That is right.

Mr. SELLS. And that was usually signed?

Mr. WOLFE. No. The note wasn't usually signed.

Mr. SELLS. In some cases it was signed?

Mr. WOLFE. Not when I was handling it.

Mr. SELLS. In no case?

Mr. WOLFE. The notes were always usually signed—in some cases chances are they were. I don't say it wasn't a practice of doing that, but we usually got the notes signed when we received the completion slip after the job was done.

Mr. SELLS. You say you usually did. Weren't there, in fact, cases where the salesmen brought in a signed note?

Mr. WOLFE. Well now you may be asking of a lot of cases that I have no direct knowledge of.

Mr. SELLS. Now look, Mr. Wolfe, you were a principal in these different concerns, which operated over a very short period of time.

Mr. WOLFE. That is right.

Mr. SELLS. In fairness to you, you knew something about the manner in which this business was conducted and in fact at least in one, by your own testimony, you were the general manager of the company.

Mr. WOLFE. That is correct.

Mr. SELLS. Isn't it a fact that some of your agents brought in some contracts with the notes, the title I loan application—

Mr. WOLFE. I never handled the contracts until I took over active management.

Mr. SELLS. You still haven't answered the question.

Mr. WOLFE. I can't honestly answer you that I know that took place, because I don't.

Mr. SELLS. Isn't it a fact, Mr. Wolfe, that in more than one case, along with a signed blank note, your salesmen also brought in a signed completion certificate?

Mr. WOLFE. Never. We never had completion certificates until after the job was done.

Mr. SELLS. Didn't your salesmen in fact carry completion certificates along with the rest of the papers?

Mr. WOLFE. No, our salesmen did not. Our applicators carried completion certificates. When our salesmen had to go and get completion slips they usually picked them up from the office. We never made it a practice—

Mr. SELLS. I want to remind you of one thing, Mr. Wolfe. There is a record being made of this and every question I have asked you along this line you have qualified. That is the way it is going in the record. You say "usually." That leaves an inference—

Mr. WOLFE. I am trying to tell you as far as I know what went on.

Mr. SELLS. When you qualify an answer by saying "usually" that leaves the inference that at least in some case it is true that completion certificates were brought in signed.

Mr. WOLFE. There never was a completion certificate brought in signed before a job was completed to my knowledge.

Mr. SELLS. Isn't it a fact that your salesmen, or at least some of them, carried with them blank completion certificates at the time they went out to make the sale?

Mr. WOLFE. They were not handed to them by the office or they were not in our salesmen's kit.

Mr. SELLS. All you are saying is, then, that you personally did not supply those; is that correct?

Mr. WOLFE. That is correct.

Mr. SELLS. Don't you know as a fact that some of your salesmen did have blank completion certificates?

Mr. WOLFE. No, I did not know that as a fact.

Mr. SELLS. Wasn't the complaint ever made to you or brought to your attention that some of your salesmen had procured signatures on completion certificates by misrepresentations?

Mr. WOLFE. We never had a single complaint on that score to my knowledge during the time we were in business.

Mr. SELLS. Was it ever complained that any of your applicators had secured a homeowner's signature on a completion certificate without the homeowner being aware of what he was signing?

Mr. WOLFE. No, sir; people aren't that dumb.

Mr. SELLS. Isn't it a fact, Mr. Wolfe, that some of your salesmen in approaching customers and soliciting jobs and explaining to customers that they were going to be FHA title I jobs, used what we call the debt-consolidation approach?

Mr. WOLFE. We have never had that called to our attention by anyone that we have sold a job to.

Mr. SELLS. Are you sure of that?

Mr. WOLFE. I am positive of that.

Mr. SELLS. Do you know whether your salesmen used that technique or not?

Mr. WOLFE. No, I don't know. I don't know whether the salesmen used it or not, but to my personal knowledge, we have never had a single complaint, or condoned, or had made a deal of that nature, with the knowledge of what was going on.

Mr. SELLS. During part of the time that your company did business, there was a requirement in effect that your salesmen obtain a 10-per-cent cash downpayment; isn't that correct?

Mr. WOLFE. That is correct.

Mr. SELLS. Isn't it a fact that in more than one case, your salesmen did not obtain a cash downpayment, or put up the downpayment out of their own pocket?

Mr. WOLFE. Yes, that is correct.

Mr. SELLS. And you knew that?

Mr. WOLFE. When that was called to our attention we did not know it, and neither Mr. Cohen nor myself knew it at that time, and when it was called to our attention, at that time, we took it up with Mr. Stroiman, who was the general manager of the place, and we laid the law down.

Mr. SELLS. What was Mr. Kline's reputation?

Mr. WOLFE. Well, Mr. Kline was sent to us by Mr. Lou Eisen as knowing the business from A to Z, and who would not tolerate selling that was nefarious in any way, and it wasn't very long before I found out that what I was told about Mr. Kline was not true, and Mr. Kline was let out, although he had a year's contract, or a 2 year's contract with us.

Mr. SELLS. Did you ask Mr. Kline be sent to you?

Mr. WOLFE. We were looking for someone to manage the business. I didn't want to step in there and run it because I didn't know enough about the business.

Mr. CARR. Did you have a contract with him?

Mr. WOLFE. We had a contract with Mr. Kline.

Mr. CARR. Did he bring a crew of salesmen with him?

Mr. WOLFE. Yes.

Mr. CARR. How many?

Mr. WOLFE. I would say 2 or 3.

Mr. CARR. Do you recall their names?

Mr. WOLFE. No. Offhand, I don't. Offhand, I don't.

Mr. SELLS. Mr. Wolfe, during the time that you were actively interested in these 5 corporations, were you drawing salaries from all 5 of them?

Mr. WOLFE. Drawing salaries from one of them.

Mr. SELLS. Which one?

Mr. WOLFE. General Builders, Inc.

Mr. SELLS. May I ask what that salary was?

Mr. WOLFE. It was \$200 a week, and then when I stepped in to run the place it was \$300 a week.

Mr. SELLS. I want you to think about this before you answer it. You have testified you received no salary from the other four companies; is that correct?

Mr. WOLFE. I know there was no salaries from Aluminum Associates. We received no salary from General Builders—from Universal Builders of Omaha, we may have received a \$25 a week expense check from Universal, but I will not swear to that, but as a salary we received no salary.

Mr. SELLS. What did you receive other than salaries, dividends?

Mr. WOLFE. No; there weren't any dividends declared.

Mr. SELLS. Loans?

Mr. WOLFE. I loaned them more money than they loaned me.

Mr. SELLS. Is it your testimony that you never profited from the operation of these other four concerns at all?

Mr. WOLFE. Yes. I would say that is my testimony, and the books, when an ultimate report is made, will show it.

Mr. SELLS. Mr. Wolfe, you certainly—and I give you every credit—you certainly weren't in this business as a charity.

Mr. WOLFE. No.

Mr. SELLS. You expected to make money out of this business?

Mr. WOLFE. I did.

Mr. SELLS. And you expected to make a lot of money out of this business?

Mr. WOLFE. That is right.

May I tell you what happened? For instance, in Universal Builders, when we bought General Builders we bought it from Dick Richards. He went into rattan furniture business. Within a few months he went broke in the rattan furniture business and wanted to go back into the siding business, although we had a contract with him that claimed he could not go back in Des Moines. So we made a deal with Mr. Richards and organized Universal Supply Co., and Mr. Richards was to run it, on a 50-50 basis, 50 percent of the profit would go to him and 50 percent of the profit would go to Mr. Cohen and myself. At the end of 7 or 8 months, or just before Christmas time, Mr. Cohen, who was supposed to be the accountant, had neglected the books and everything there, and we found the place had made about \$22,000, and Mr. Richards had not only used his \$11,000 up but also used up our \$11,000, and some of our working capital.

Mr. SELLS. That takes care of 1. How about the other 3?

Mr. WOLFE. Aluminum Associates, there was never anything to divide. It was a short-lived corporation. It had lots of expenses. We operated between Universal in Omaha for about 12 months and the first 2 months are losing months in every business, so we only had one concern, General Building Corp.

Mr. SELLS. Your testimony is the only profit, or return, that you received was this \$300 a week salary you received when you were general manager of General Builders; is that correct?

Mr. WOLFE. That is correct.

Mr. SELLS. Do you want the record to show that?

Mr. WOLFE. Yes, because it is true, as much as you might doubt it.

Mr. SELLS. How much of your own money did you invest in these five corporations, Mr. Wolfe?

Mr. WOLFE. Around \$20,000, I would judge.

Mr. SELLS. How long were you general manager of General Builders?

Mr. WOLFE. About 4 or 5 months.

Mr. SELLS. So your testimony is that for your \$20,000 investment in these 5 corporations you recovered approximately \$6,000. I am taking five times \$1,200 a month—

Mr. WOLFE. No. I was drawing \$200 a month before—for about a year and a half, I was drawing \$200 a week.

Mr. SELLS. \$200 a week?

Mr. WOLFE. Yes.

Mr. SELLS. As an officer?

Mr. WOLFE. Yes.

Mr. SELLS. For about how long?

Mr. WOLFE. About a year and a half there.

Then there was one instance I recall that Mr. Cohen and myself each took \$2,000 out of General Builders, as part of our capital, to go into an oil deal.

Mr. SELLS. You withdrew it as a return of capital?

Mr. WOLFE. Yes.

Mr. SELLS. Did you ever borrow money from these corporations?

Mr. WOLFE. I never did.

Mr. SELLS. How about Mr. Cohen?

Mr. WOLFE. Mr. Cohen borrowed once, \$1,500, while I was out of the city I remember, but, as far as making it—which happens to be true—but as far as making a general practice of borrowing money from the corporations, we didn't.

Mr. SELLS. I wasn't amused. I was thinking that you, again, had to qualify your statement by saying that he borrowed \$1,500, "while I was out of the city."

Mr. WOLFE. That is just the way it happened, because if I was there—

Mr. SELLS. You wouldn't have let him have it?

Mr. WOLFE. That is right.

Mr. SELLS. That was the inference you left by the answer you gave to the question.

Mr. WOLFE. That is true.

Mr. SELLS. As I see the figures, roughly speaking, Mr. Wolfe, considering your \$200 a week salary, which you drew as an officer, and your \$6,000 that you drew for the period for which you were general

manager, you probably recovered somewhere between \$15,000 and \$20,000 of your original investment of your own money; is that about right?

Mr. WOLFE. I have always felt that I just about broke even in that entire operation.

Mr. SELLS. But your testimony is that you didn't walk off with more than what you put in the business?

Mr. WOLFE. That is pretty close to it.

Mr. SELLS. How active have you been in the field of financing used cars?

Mr. WOLFE. I have never financed used cars, except maybe for an employee in the single instance, but I have never been in the field of financing used cars as a general practice.

Mr. SELLS. Did you ever sell used cars?

Mr. WOLFE. No, sir.

Mr. SELLS. Are you sure about that?

Mr. WOLFE. Outside of my own, yes, I am positive about that. I was never in the used-car business at any time.

Mr. SELLS. How friendly were you with this Mr. McBride of FHA?

Mr. WOLFE. Just friendly enough so that I thought I could come up to him and talk to him in privacy.

Mr. SELLS. Did he ever visit you socially?

Mr. WOLFE. Never did.

Mr. SELLS. Did you ever visit him socially?

Mr. WOLFE. No.

Mr. SELLS. Did you ever receive any complaints from FHA about the practices your salesmen were allegedly engaged in?

Mr. WOLFE. Yes. We brought the salesmen and took it up to FHA and got it straightened out just as fast as we could.

Mr. SELLS. What were the nature of those complaints? Complaints about high pressure sales tactics?

Mr. WOLFE. That was the usual complaint, model home——

Mr. SELLS. What was the unusual complaint?

Mr. WOLFE. We didn't have too many of those. As the records of the FHA office will show.

Mr. SELLS. I am not concerned with the total number or even a representative number. I said what were the nature of the complaints you did receive?

Mr. WOLFE. The nature of the complaints were the model homes.

Mr. SELLS. Were there any complaints about forgery of documents?

Mr. WOLFE. There never was complaints about forgery of any of our documents.

Mr. SELLS. Any complaint that your salesmen had procured signatures on any of the loan documents, the note, or any of those, without the customer knowing what he was signing?

Mr. WOLFE. Absolutely not.

Mr. SELLS. Are you sure about that?

Mr. WOLFE. I am positive about that, because we never had any of those complaints.

Mr. SELLS. You are sure FHA never brought those to your attention?

Mr. WOLFE. In my own mind, I am pretty sure, because that was never any bone of contention with FHA and Universal Builders, and General Builders.

Mr. SELLS. Did any of your salesmen, when they went out to sell a job, make it a practice to so arrange the papers on a particular sale, such as the contract, title I loan application, credit application of the combined note, in such a manner that only a portion of each of those documents was exposed when the deal was offered to the customer for signature?

Mr. WOLFE. I never watched any of our people.

Mr. SELLS. I am not asking you whether you watched them. I am asking you if you knew whether they used that practice.

Mr. WOLFE. No, I don't know.

Mr. SELLS. Did it come to your attention that they had been using that practice?

Mr. WOLFE. It never came to my attention. In order to know that I would have to watch the man sell.

Mr. SELLS. How many of your salesmen used more than one name, Mr. Wolfe?

Mr. WOLFE. I think we had two or three, while Mr. Kline was running the place, and that was our bone of contention with Mr. Kline. That is one of the reasons we let him and the men go.

Mr. SELLS. Who were those individuals that used more than one name in their selling?

Mr. WOLFE. A chap by the name of Woll from Los Angeles.

Mr. SELLS. Do you know whether that was a real name or whether that was one of his other names?

Mr. WOLFE. That was his real name. I happened to meet his brother out there one time, and he was using the same name.

Mr. SELLS. Give me the others that you know used more than one name?

Mr. WOLFE. There is only two of them. I can't recall right now their names. I wasn't active——

Mr. SELLS. Garthson?

Mr. WOLFE. That name doesn't ring a bell.

Mr. SELLS. How well acquainted are you with Harry Nassan?

Mr. WOLFE. I haven't done any business with Harry Nassan.

Mr. SELLS. That isn't what I asked you.

Mr. WOLFE. I met him through Louis Mann or Jerry Kauffman. I have never visited him socially, I have never done any business with him, he has never visited me socially. I just knew him enough to say hello.

Mr. SELLS. You know more than that about him.

Mr. WOLFE. Only from hearsay.

Mr. SELLS. Isn't it a fact you know he is a pretty big operator in this home-improvement field?

Mr. WOLFE. I know he is considerable. I have never been in his place of business.

Mr. SELLS. Did Richard Vidaver ever work for you?

Mr. WOLFE. No.

Mr. SELLS. Are you sure about that?

Mr. WOLFE. Positive.

Mr. SELLS. How much business did you do with the Enrico Co., of Chicago?

Mr. WOLFE. We didn't do a nickel's worth of business with them.

Mr. SELLS. Do you know who they are?

Mr. WOLFE. I have heard of them. We didn't do any business with them. I don't know who they are.

Mr. SELLS. Isn't it a fact you heard of them in connection with Harry Kane?

Mr. WOLFE. No. That is not a fact. In fact, that is an impossibility.

Mr. SELLS. Why is that?

Mr. WOLFE. Because at the time I met Harry Kane it was just an introduction, the first time, and it was just to tell him "no" the second time.

Mr. SELLS. Mr. Wolfe, I want to ask you if you could furnish this committee with a list of the names and addresses of all the salesmen that were employed by any of these five concerns during the time that you had an interest?

Mr. WOLFE. Well, I don't know whether I can or not, but I can try. I don't know. I would have to go back. We kept our books and records, and by going back to the checkbooks I think I could give you a list of the names and addresses.

Mr. CARR. Did you keep commission schedules?

Mr. WOLFE. We did keep commission schedules on each particular job, and we used to have, the subcontractor form and everything else.

Mr. CARR. I mean on a consolidated basis for each man?

Mr. WOLFE. No.

Mr. CARR. You paid him for each job?

Mr. WOLFE. Yes. We paid by every job, or we kept them—for each man—a file, but those took so much room that when we discontinued the business we only saved the essentials that we had to have, our bookkeeping records. I know we have all the check stubs so I can go over the check stubs.

Mr. SELLS. I want you to furnish such a list to this committee, Mr. Wolfe.

Mr. WOLFE. I will be glad to do anything I can.

Mr. SELLS. I want it as soon as possible. How long do you think it would take to get such a list together?

Mr. WOLFE. I would have to go over a lot of checkbooks.

Mr. SELLS. Could you have it by Wednesday of next week?

Mr. WOLFE. It all depends how soon I get back.

Mr. SELLS. Well, are you here for any other business but for this session today?

Mr. WOLFE. No.

Mr. SELLS. I can assure you, Mr. Wolfe, we don't intend to keep you.

Mr. WOLFE. No; but I happen to be in another business. I figured as long as I was here now, this business actually hasn't materialized yet. We are just going into that. I thought I would spend a day or so in New York while I was this far east.

Mr. SELLS. I will ask you again, Mr. Wolfe, can you furnish such a list by Wednesday of next week?

Mr. WOLFE. I will do my best to do so.

Mr. SELLS. I want something more definite than that. If Wednesday is too soon you tell me when you can furnish it.

Mr. WOLFE. I will furnish that kind of a list to you, to the best of my ability, out of the records that we have, before the end of next week.

Mr. SELLS. All right. That is satisfactory.

Mr. WOLFE. If you will tell me where to send it and who to send it to.

Mr. SELLS. Mr. Carr will give you that information.

Mr. WOLFE. I will go on record right now that any way that I can help in this matter, because I feel this way: That I don't owe anybody anything that has ever been connected with me in this business. I am not saying that I have information, of any kind, that is detrimental to anybody, but my own conclusion is this: That the lowest of the lowest scum are connected with the siding business and that is one of the reasons we closed our doors and I have never been an angel, but on the other hand, I am not a professional gambler.

Mr. SELLS. You are a professional publisher; is that it?

Mr. WOLFE. My gambling—just as long as you have that in the record that I am an official gambler—

Mr. SELLS. I don't have it in the record. I am not testifying. I asked you the question.

Mr. WOLFE. I know. The question was in there. My gambling is confined to bridge, gin, an occasional game of poker at our Standard Club, the club we have.

Mr. SELLS. A private club?

Mr. WOLFE. Yes, it is a private club.

Mr. SELLS. Is it a membership club?

Mr. WOLFE. Yes. It is a social club, open to the general public.

Mr. SELLS. Do you buy memberships in the club?

Mr. WOLFE. No. At the time we organized the club, we hold a bond issue to buy a building for us, but it is not a closed-door club. It is a club where the lawyers' club met once a week for lunch, in the community, and so forth.

Mr. SELLS. A nonprofit corporation?

Mr. WOLFE. Yes. We have one of the most beautiful clubs.

Mr. SELLS. Who owns it?

Mr. WOLFE. The membership.

Mr. SELLS. It is a membership club?

Mr. WOLFE. Yes.

Mr. SELLS. In other words, you purchase a membership in it?

Mr. WOLFE. Yes. You have to purchase a membership in it but it is controlled by the membership. There is no individual that profits from it in any way, and we don't run a gambling house.

Mr. SELLS. You don't run a house game?

Mr. WOLFE. No. There never is a house game. There never is an individual game. The only game—we run a house game, when we sit down, suppose a group of eight of us sit down to play poker. Then there is a club charge of \$1 a person, which pays for the cards.

Mr. SELLS. For the game, the whole game, or for what?

Mr. WOLFE. For the entire game.

Mr. SELLS. For an hour?

Mr. WOLFE. For the entire game.

Mr. SELLS. Mr. Wolfe, did you ever pay any official of the FHA a gift?

Mr. WOLFE. I never have at any time paid any official of the FHA—I never gave them a gift or never paid them any money, and only at one time was anything like that called to my attention, and that is the time when Mr. Stroiman told me that he had tried to offer one of the FHA men \$200, and the FHA man almost punched him in the nose.

No. Pardon me. I would like to correct that.

It was not an FHA man. It was an ABC man. He worked for Allied Building Credit. At no time did we give any presents or any finance in connection with anyone working with an FHA office.

Mr. SELLS. Did you ever loan any money to any employee of the FHA?

Mr. WOLFE. I never did. Neither did any of the companies.

Mr. SELLS. Did you ever gamble with any employees of FHA?

Mr. WOLFE. No. I never associated socially with anybody connected with FHA.

Mr. SELLS. Are you sure Mr. McBride wasn't a member of this club of yours?

Mr. WOLFE. I am sure he wasn't. He wouldn't be interested. This happens to be a Jewish club.

Mr. SELLS. Do you have any interest in the Glen Smith Motor Co. in Des Moines?

Mr. WOLFE. Never.

Mr. SELLS. Do you know any principals of that company?

Mr. WOLFE. Glen Smith used to be my neighbor across the street. I don't think, if I met him on the street right now, I think I would have a hard time to recognize him.

Mr. SELLS. You have no financial interest at all in connection with Mr. Smith?

Mr. WOLFE. No financial interest whatsoever. I never did.

Mr. SELLS. Do you have anything else, Dick?

Mr. CARR. Do you know a Lynn Edwards?

Mr. WOLFE. Lynn Edwards, male or female?

Mr. CARR. Male, in the home-modernization business.

Mr. WOLFE. Home organization?

Mr. CARR. Modernization.

Mr. WOLFE. I might know him if I saw him.

Mr. CARR. Samuel Rosenhouse?

Mr. WOLFE. No.

Mr. CARR. Jack Harwood?

Mr. WOLFE. No. Those don't ring a bell at all. Right now there are a number of organizations. In fact, just before I left yesterday morning my banker called me in, and the grand jury is sitting in Des Moines on FHA right now, and they were supposed to hand out 4 or 5 indictments yesterday, and my banker called me in, and he says, "Jack, I just got the news that your stuff is all clean."

Mr. SELLS. What is the banker's name?

Mr. WOLFE. The Valley Trust Co.

Mr. SELLS. Was he one of the concerns in which you discounted your title I notes?

Mr. WOLFE. No.

Mr. SELLS. Is he your personal banker?

Mr. WOLFE. Yes. I am surprised at even being called in here, because I will say that we were too conscientious to be in this business and that is one of the reasons we did not make any money. I will tell you—

Mr. SELLS. Mr. Wolfe, I cannot dispute your statements and your statements are in the record, but let me point this out to you: You have made your position appear to be something like this: You got in the business expecting to make money.

Mr. WOLFE. That is correct.

Mr. SELLS. You found that the business was infested with people who were not above using any questionable selling practice that they could, and you testified that you got out.

Mr. WOLFE. That is correct. On the other hand—

Mr. SELLS. But you have made it quite clear that you knew that some of these things that I have mentioned—and I believe this is somewhere in that record—some of these things like securing customers' signatures on blank paper were common practices.

Mr. WOLFE. Not with our organization.

Mr. SELLS. I am not saying with your organization.

Mr. WOLFE. I didn't make it clear. On a national picture, by associating, by attending meetings in Chicago and meetings right here in Washington, on a national basis, there are certain men operating who have reputations of trying to be very clean, and in fact we try to pattern ourselves after one of those organizations and that was one of the reasons we failed to make money in this business, because actually, I will show you where the money is made in this business is by the parent organization stealing from all ends. In other words, if you are a salesman working for us, you bring in a job for 14 squares for so much money. Maybe the job takes 12 squares, but we tell you it took 16 or 18 squares.

Mr. SELLS. You say that is common in the business?

Mr. WOLFE. That is common.

Mr. SELLS. Did you ever do that?

Mr. WOLFE. No; we never did that, but it is a common practice.

Mr. SELLS. You mentioned you attended some meetings here in Washington, Mr. Wolfe. What meetings were those?

Mr. WOLFE. At the time when All-Side was cut off under aluminum allotments, a number of siding men from all over the country came into Washington for a little meeting to discuss the situation.

Mr. SELLS. Is that the only meeting you attended in Washington?

Mr. WOLFE. Yes.

Mr. SELLS. Mr. Wolfe, I have nothing further if Mr. Carr has nothing.

Mr. CARR. I have nothing.

Mr. SELLS. I think that is all, Mr. Wolfe.

(Whereupon, at 4:10 p. m., the committee proceeded to further business.)

(The testimony of Mr. Farrell in executive session follows:)

#### EXECUTIVE SESSION

The hearing convened, pursuant to call, at 2 p. m., in room F-41, United States Capitol, Tuesday, August 17, 1954.

Present: Senator Payne.

Staff members present: Messrs. Sells and Kenney (general counsel) and Cochran (notary public).

Also present: Mr. Lew Farrell.

Mr. SELLS. Mr. Farrell, for the benefit of the reporter will you give your full name, please.

Mr. FARRELL. Lew Farrell.

Mr. COCHRAN. Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. FARRELL. Yes, sir.

Mr. SELLS. Mr. Farrell, I have introduced myself to you as Mr. Sells. I am one of the assistant counsel for the Senate Banking and Currency Committee. Mr. Kenney is also an assistant counsel.

Now, Mr. Farrell, will you give us your present residence address, please?

Mr. FARRELL. 1115 Caulder Avenue, Des Moines, Iowa.

Mr. SELLS. Do you have a phone at that address?

Mr. FARRELL. 2-5937.

Mr. SELLS. What is your present business address, Mr. Farrell?

Mr. FARRELL. I don't have any business, myself.

Mr. SELLS. You have none at all at the present time?

Mr. FARRELL. No.

Mr. SELLS. Are you retired?

Mr. FARRELL. No, I am not retired.

Mr. SELLS. All of us have to live, Mr. Farrell. What is your source of income, may I ask.

Mr. FARRELL. I am employed at the present time.

Mr. SELLS. By whom?

Mr. FARRELL. Well, I am going to tell you something. It seems to me that—you know I have appeared before a committee before and there is an awful smear campaign that has been against me. And for that reason—I mean as far as I am concerned, I have got nothing to hide, I never did have anything to hide. But it seems that when anybody's name is mentioned with me, they are smeared right along with me. So I haven't been given permission to tell who I am employed by, but you can send somebody down there. I don't want it to go into the committee record.

Mr. SELLS. Mr. Farrell, I think maybe we'd better exchange a few remarks here right at the outset. I want to make it clear to you precisely why you have been asked to come here, today, and I will state this, that it is not news to us that you have appeared in the past before another Senate investigating committee.

Mr. FARRELL. Yes.

Mr. SELLS. You probably are aware that this committee, the Senate Banking and Currency Committee, is presently conducting an extensive investigation into the Federal Housing Administration.

Mr. FARRELL. That is right.

Mr. SELLS. Now, a part of the investigation is directed toward what we call the home-improvement field. Now, I want to make this clear, Mr. Farrell. You have been asked to come here for 1 purpose and 1 purpose only. We have information that you have, in the recent past—and by that I mean the last 4 or 5 years—been engaged in the home-improvement business and we want to ask you questions about it, and about your associations in that business.

Now, I want to make it clear to you, Mr. Farrell. You have no privilege or right to refuse to answer questions about your present employment because someone else hasn't given you permission to answer those questions. The only privilege that you have to decline to answer any of my questions is the privilege you are accorded under the fifth amendment and I am sure that is a privilege that you are familiar with.

Mr. FARRELL. Yes; but I don't have any fifth amendment to—I mean there is nothing that I am doing or have done that I feel is going to

tend to incriminate me. The only thing is, this situation with my name being mentioned has been in the newspapers in the city of Des Moines, now, for over a week, and, therefore, why should I say that I am associated with Mr. Sells, and have Mr. Sells smeared?

Mr. SELLS. I am not going to debate the question with you, Mr. Farrell. I want to know by whom you are employed.

Mr. FARRELL. If I am breaking the law by not telling you who I am employed by—because I might be unemployed by the time I get back, when it appears in the paper who I am employed by.

Mr. KENNEY. Do you understand the testimony you give here is confidential?

Mr. FARRELL. Oh, I don't—listen——

Mr. KENNEY. It is not going to the newspaper——

Mr. FARRELL. It isn't? Well, your testimony here has been in the newspaper.

Mr. KENNEY. Nothing from this secret session ever got in the newspaper as far as I know.

Mr. FARRELL. Well, I don't know.

Mr. KENNEY. They may have gotten into the newspapers through other sources but not through the private hearings.

Mr. FARRELL. I don't know how they could——

Mr. KENNEY. There is no publicity from our standpoint, of anything that you may testify to.

Mr. SELLS. I think that should be made clear at the very outset, Mr. Farrell. I would be happy to explain this to you. Every member of the staff of this committee——

Mr. FARRELL. Do you fellows get the Register and Tribune?

Mr. SELLS. No.

Mr. FARRELL. When the last people testified——

Mr. SELLS. Who do you mean by the last people?

Mr. FARRELL. Well, the fellow, whoever testified—Mr. Wolfe testified here.

Mr. SELLS. I don't see what that has to do with it, Mr. Farrell.

Mr. FARRELL. Why don't we do it this way, why don't we do it this way? Why don't you ask me questions about your FHA housing and what I have to do with it and everything else?

Mr. SELLS. You are refusing to answer my question about your present employment?

Mr. FARRELL. No, I am not refusing to answer your question at all. I just don't want my present employer to be smeared. Other people that I am associated with have been.

Mr. SELLS. Unless you answer my question, you are refusing to answer it.

Mr. FARRELL. Well, if that is the way you put it, I couldn't help it.

Mr. SELLS. You are not going to answer that question, is that correct?

Mr. FARRELL. Well, say I am unemployed, as of now. I resigned yesterday.

Mr. SELLS. By whom were you employed until yesterday?

Mr. FARRELL. What if this gets in the newspapers, then what?

Mr. SELLS. Now, you cut me off before I finished what I was going to tell you, Mr. Farrell. Every member of this staff, by virtue of the position they hold, may not under any circumstances, disclose the testimony that is given to this committee in executive session.

Mr. FARRELL. Listen, I believe you——

Mr. SELLS. The only people who have the power to disclose what happens in these executive sessions is the full committee itself, and that includes the 15 Senators who compose this committee. They can make this testimony public, upon a vote of the committee, but no member of this staff has the right or the power to do so. So far as we know, no such testimony has been made public by any member of this staff. Now, as Mr. Kenney has pointed out, if there has been publicity on it, and so forth, it is quite possible it came from the very people themselves who testified here and what they tell the reporters is their own business. But we don't make a practice of telling reporters what happens behind these closed doors.

Now, I want to remind you again you are appearing here in answer to a subpoena of a Senate committee, and I have asked you a question, which is well within the scope of this committee's investigation. I want to know by whom you were employed up until yesterday?

Mr. FARRELL. I know what is going to happen—is there anything wrong in my being employed by anyone? I am going to ask you a very sensible question that is going to lead to a very, very——

Mr. SELLS. I am not answering questions. You are answering questions. Now, you know whether there is anything wrong in whether you are employed by anyone in particular. All I have asked you is, who is your present employer, or your most immediate past employer. I started out by asking you how you make your living.

Mr. FARRELL. My most—was Harold Golding of the Complete Home Remodeling Co.

Mr. SELLS. Now, I think we are getting a little bit closer to what we want. Where is that located.

Mr. FARRELL. Southwest Seventh and Indianola.

Mr. SELLS. In Des Moines?

Mr. FARRELL. Yes.

Mr. SELLS. Will you spell the name of that company?

Mr. FARRELL. C-o-m-p-l-e-t-e H-o-m-e R-e-m-o-d-e-l-i-n-g Co.

Mr. SELLS. How long were you employed by that company?

Mr. FARRELL. I would say about a year and a half.

Mr. SELLS. When did you cease your employment by that company? Is that the position from which you just resigned?

Mr. FARRELL. No.

Mr. SELLS. When did you stop working for Mr. Golding?

Mr. FARRELL. I can't tell you exactly. Five or six months ago, approximately.

Mr. SELLS. Five or six months ago would make it about what, January or February of 1954?

Mr. FARRELL. January or February, something like that.

Mr. SELLS. You were employed by him for about a year and a half?

Mr. FARRELL. Yes.

Mr. SELLS. That would take us back to about June 1952, is that right?

Mr. FARRELL. That is right.

Mr. SELLS. What were you doing during the early part of the year 1952? What was your employment?

Mr. FARRELL. I was unemployed.

Mr. SELLS. You were unemployed?

Mr. FARRELL. Yes.

Mr. SELLS. For how long?

Mr. FARRELL. Since the middle part of 1950.

Mr. SELLS. By that you mean what, June of 1950?

Mr. FARRELL. Yes.

Mr. SELLS. Until June 1952?

Mr. FARRELL. That is right.

Mr. SELLS. You were unemployed for 2 years?

Mr. FARRELL. That is right.

Mr. SELLS. What did you live off of, Mr. Farrell?

Mr. FARRELL. Well, I had a little money put away and I had some insurance that I borrowed on.

Mr. SELLS. Is this Complete Home Improvement Co., is that the only such company that you have been employed by in the past, oh, well say, since 1948?

Mr. FARRELL. Since 1948, I have never been in business in 1948.

Mr. SELLS. I say during the period since 1948 have you been employed by any other such company as the Complete Home Improvement Co.?

Mr. FARRELL. No.

Mr. SELLS. During that same period, have you had any interest in any company doing business in the home-improvement field?

Mr. FARRELL. No, sir; I definitely have not.

Mr. SELLS. What was your association with the Interstate Builders?

Mr. FARRELL. The first time I heard of the Interstate Builders is when I read it in the newspapers.

Mr. SELLS. And when was that?

Mr. FARRELL. Right after the man who testified here.

Mr. SELLS. Which man are you referring to?

Mr. FARRELL. Jack Wolfe.

Mr. SELLS. How well do you know Mr. Wolfe?

Mr. FARRELL. How well do I know him? Des Moines, Iowa, is a little town. I know him, not socially well, just as a casual acquaintance.

Mr. SELLS. Do you mean a sociable acquaintance?

Mr. FARRELL. That is right.

Mr. SELLS. Do you play cards with him?

Mr. FARRELL. No.

Mr. SELLS. Drink with him?

Mr. FARRELL. I belong to the same club with him.

Mr. SELLS. What kind of a club is that?

Mr. FARRELL. That has nothing to do with FHA title I. I mean the club. It is a private club. Why enter that club into the record?

Mr. SELLS. I would like to know the nature of your acquaintance-ship and association with Jack Wolfe. Now, you say you belong to the same club. What kind of a club is that, Mr. Farrell?

Mr. FARRELL. Oh, I mean, that isn't necessary.

Mr. SELLS. Are you refusing to answer that question?

Mr. FARRELL. Why do you want to put the name of a club in any record? Standard Club. All right.

Mr. SELLS. What kind of a club is it?

Mr. FARRELL. It is a social club.

Mr. SELLS. All right. Now, who belongs to it?

Mr. FARRELL. I don't know. There are 400 members.

Mr. SELLS. Business people?

Mr. FARRELL. Yes. A very high class club.

Mr. SELLS. Doctors and lawyers?

Mr. FARRELL. Yes.

Mr. SELLS. Is it open to the general public?

Mr. FARRELL. No. It is a membership.

Mr. SELLS. A private membership club; is that right?

Mr. FARRELL. Yes.

Mr. SELLS. Where is it located?

Mr. FARRELL. It is on Sixth and High.

Mr. SELLS. In Des Moines?

Mr. FARRELL. Yes.

Mr. SELLS. And you say it is a social club?

Mr. FARRELL. That is right.

Mr. SELLS. Do they have a clubroom?

Mr. FARRELL. Yes.

Mr. SELLS. Is it a nonprofit club?

Mr. FARRELL. That is right.

Mr. SELLS. And by "social" you mean what? Drinking club?

Mr. FARRELL. Not necessarily.

Mr. SELLS. Suppose you tell me, Mr. Farrell, what kind of a club is it?

Mr. FARRELL. What has that got to do with FHA title I?

Mr. SELLS. I want to know how well you know Mr. Wolfe. You said you were members of the same club.

Mr. FARRELL. I know him. I don't know him too well. I know him. No, I am going to give you the answer right there. I have been to his home a couple of times. I have seen him on the street. I have seen him in his office a couple of times. Now, that is the extent of my knowing him.

Mr. SELLS. What is Mr. Wolfe's business?

Mr. FARRELL. I don't know what his business is today.

Mr. SELLS. On these occasions when you saw Mr. Wolfe in his office, what was the purpose of that?

Mr. FARRELL. Well, he was in the printing business, he had a newspaper.

Mr. SELLS. Is the printing business Mr. Wolfe's only business?

Mr. FARRELL. No; he had a siding business.

Mr. SELLS. And isn't it a fact, Mr. Farrell, that you were associated with him for a period in the siding business?

Mr. FARRELL. Absolutely, positively, definitely—if I knew any more words I would say—not.

Mr. SELLS. You understand the question I give you.

Mr. FARRELL. Yes, and Buddy, I'm under oath and if there is anything you could just cite me.

Mr. SELLS. Have you ever had any business relations with Mr. Wolfe at all, in connection with the home-improvement business?

Mr. FARRELL. No, sir.

Mr. SELLS. At any time?

Mr. FARRELL. No, sir. What you mean now, I mean be specific. Come to the point and say did I ever make any money with him.

Mr. SELLS. That is not what I asked you.

Mr. FARRELL. Well, that is the same thing. Or lost any money with him.

Mr. SELLS. It is not. It is not.

Let me ask you this: You testified that you know Mr. Wolfe had some siding businesses.

Mr. FARRELL. Yes. That was his reputation.

Mr. SELLS. Did you have any ownership in any of those businesses?

Mr. FARRELL. No, siree.

Mr. SELLS. Were you employed by any of those businesses?

Mr. FARRELL. No, siree.

Mr. SELLS. Did you receive any income or any financial return for any of those businesses operated by Mr. Wolfe?

Mr. FARRELL. No, siree.

Mr. SELLS. Did you organize or help set up any of those businesses?

Mr. FARRELL. I did not.

Mr. SELLS. Did you manage or oversee any of the operations of any of those businesses run by Mr. Wolfe?

Mr. FARRELL. I did not.

Mr. SELLS. Now, you testified that you had no interest whatsoever in Interstate Builders. Is that correct?

Mr. FARRELL. Yes.

Mr. SELLS. Do you know the company?

Mr. FARRELL. No, sir.

Mr. SELLS. Have you ever heard of them?

Mr. FARRELL. The first time in the Register and Tribune.

Mr. SELLS. You have no financial interest in that company at all?

Mr. FARRELL. No, sir.

Mr. SELLS. You have never had any financial interest?

Mr. FARRELL. Never have.

Mr. SELLS. Now, I want to ask you about another company. Do you know of a company known as Universal Builders, Inc., located in Omaha, Nebr.?

Mr. FARRELL. I know of the Universal Co. and I know of 4 or 5 companies in Omaha, Nebr.

Mr. SELLS. Isn't it a fact, Mr. Wolfe, that you had a financial interest in Universal?

Mr. FARRELL. Mr. Farrell.

Mr. SELLS. Mr. Farrell; excuse me.

Mr. FARRELL. That I had a financial——

Mr. SELLS. Yes.

Mr. FARRELL. No, sir.

Mr. SELLS. No interest or connection whatsoever with Universal Builders, Inc., of Omaha?

Mr. FARRELL. No.

Mr. SELLS. Was that one of Mr. Wolfe's companies?

Mr. FARRELL. I don't know. I couldn't tell you.

Mr. SELLS. You have no knowledge whatsoever of that company?

Mr. FARRELL. No.

Mr. SELLS. Do you know any of the people who operated that company?

Mr. FARRELL. No.

Mr. SELLS. You are positive about that?

Mr. FARRELL. Yes.

Mr. SELLS. Isn't it a fact, Mr. Farrell, that you and a group of other individuals purchased the Universal Builders, Inc., of Omaha, from Jack Wolfe and his associate, Mr. Cohen?

Mr. FARRELL. Absolutely not. You told me two companies now, Universal and Interstate.

Mr. SELLS. Yes.

Mr. FARRELL. Absolutely not.

Mr. SELLS. You are sure about Universal Builders of Omaha?

Mr. FARRELL. Yes.

Mr. SELLS. You have no interest whatsoever in that company?

Mr. FARRELL. No.

Mr. SELLS. And you have never had any interest in that company, is that correct?

Mr. FARRELL. That is right.

Mr. SELLS. Have you ever been associated with Mr. Wolfe in any capacity, in connection with the home improvement field?

Mr. FARRELL. Never.

Mr. SELLS. At any time?

Mr. FARRELL. At no time.

Mr. SELLS. Now, this Complete Home Improvement Co. What was your capacity with them?

Mr. FARRELL. I was office manager.

Mr. SELLS. For about a year and a half, is that right?

Mr. FARRELL. Yes.

Mr. SELLS. What were your duties?

Mr. FARRELL. Just taking care of the office. Lining out the men for the different work, taking care of the books.

Mr. SELLS. Now, by lining out the men, do you mean you were in charge of the salesmen, too, is that correct?

Mr. FARRELL. Well, some salesmen came there.

Mr. SELLS. What was the principal products dealt in by that company?

Mr. FARRELL. Oh, they were in the roofing and siding and construction.

Mr. SELLS. Would you say the general home improvement field?

Mr. FARRELL. Yes.

Mr. SELLS. Isn't it a fact also that much of the business done by that company was financed under title I of the National Housing Act?

Mr. FARRELL. Well, I would—

Mr. SELLS. It was FHA loan work?

Mr. FARRELL. I had nothing to do with any FHA title I's myself but I would assume under the conditions of that home remodeling, that almost everything is FHA.

Mr. SELLS. That is not answering my question, Mr. Farrell. Weren't many of the sales made by the company while you were general manager, or office manager, or whatever you term yourself, weren't they financed under FHA title I loans?

Mr. FARRELL. I had nothing to do with that so I don't know whether they were FHA title I but I would say they were. That would be my guess, that they were.

Mr. SELLS. I don't understand how you could be a general manager for them—

Mr. FARRELL. I had nothing to do with financing the paper or turning the paper in.

Mr. SELLS. Who did?

Mr. FARRELL. The proprietor, Mr. Golding. He called in all paper and applications and everything. I had no time, and never have up until today called any FHA title I paper in to any bank.

Mr. SELLS. Which bank handled most of the title I paper?

Mr. FARRELL. I couldn't tell you.

Mr. SELLS. While you were employed there as a general manager you saw a lot of applications for title I loans come through the office did you not?

Mr. FARRELL. Yes; I think they just went through different ones. Whatever banking institution had handled it there. You have 4 or 5 institutions that handled it and I suppose everyone got their share.

Mr. SELLS. Now, you were general manager there according to your testimony as we reconstructed it, from the middle of what, 1952?

Mr. FARRELL. Yes.

Mr. SELLS. Until the early part of this year, is that right?

Mr. FARRELL. Yes.

Mr. SELLS. Now, during the time that you were general manager, how many salesmen were employed by the company?

Mr. FARRELL. How many were? Oh, off and on, I would say maybe 10 or 12.

Mr. SELLS. That would be the most?

Mr. FARRELL. About the most. Not at one time. I am talking about during a period of a year and a half. It was a very small company. It wasn't a big operating company.

Mr. SELLS. Did you devote your full time to the business?

Mr. FARRELL. In the business; yes. Around the office.

Mr. SELLS. Did you have any other source of income while you were working there?

Mr. FARRELL. No.

Mr. SELLS. None at all?

Mr. FARRELL. No.

Mr. SELLS. You are absolutely sure about that?

Mr. FARRELL. I am positive.

Mr. SELLS. Was there much turnover in the salesmen?

Mr. FARRELL. I don't understand.

Mr. SELLS. Did you keep the same salesmen pretty much during the whole period?

Mr. FARRELL. No; they changed around. They come back. Those that came there stayed there.

Mr. SELLS. How long during that period that you were general manager, how long did you employ Richard Vidaver?

Mr. FARRELL. Never heard of the man. Never heard of him. Richard Vidaver?

Mr. SELLS. V-i-d-a-v-e-r.

Mr. FARRELL. Never heard of him.

Mr. SELLS. Are you sure?

Mr. FARRELL. Positive. This is the first time I heard his name.

Mr. SELLS. Did you ever employ Harry Cohen?

Mr. FARRELL. Harry Cohen? No, sir.

Mr. SELLS. Harry Cane?

Mr. FARRELL. No, sir.

Mr. SELLS. Do you know a Harry Cane?

Mr. FARRELL. No; I do not.

Mr. SELLS. Have you ever heard of him?

Mr. FARRELL. Have I heard of him?

Mr. SELLS. Yes.

Mr. FARRELL. No. Well, just paper writings and things like that. I have been following this FHA thing.

Mr. SELLS. Is there any particular reason why you have been following this FHA thing?

Mr. FARRELL. No. I am kind of interested, whenever any smear things come out. I can't understand them.

Mr. SELLS. You have used that word "smear" several times, Mr. Farrell.

Mr. FARRELL. I have been the victim of it. That is the the reason why I am using it.

Mr. SELLS. In what respect?

Mr. FARRELL. Well, in a lot of respects. I think that maybe if you would inquire, maybe you might find out.

Mr. SELLS. You have made the statement that you have been the victim of a smear and I have extended you the opportunity to explain what you mean and you don't answer my question.

Mr. FARRELL. Well, I can't explain it to you, because it can't be explained, that is all. Whenever anything comes up, it is Lew Farrell, that is all. There is no proof; I have never been convicted. I never get convicted or nothing. Still it is Lew Farrell. A big splash. Headlines.

Mr. SELLS. You have never been convicted?

Mr. FARRELL. No; I have never been convicted of anything.

Mr. SELLS. What is your real name?

Mr. FARRELL. Louis Fratto is my real name.

(Stricken, by request of Senator Payne.)

Mr. SELLS. Mr. Farrell, I have no quarrel with what you have shown me, but I fail to see what, if any, interest it might have to this particular committee.

Mr. FARRELL. That is the reason why I can't understand why you are asking me a lot of questions that have nothing to do with FHA title I, either.

Mr. SELLS. If you would answer a few of my questions, maybe we would get to the point where you would begin to see a connection.

Mr. FARRELL. That is the reason I am telling you about this smear and everything else.

Mr. SELLS. Your real name is Louis Fratto, is that right?

Mr. FARRELL. That is right.

Mr. SELLS. And that is the name under which you were born?

Mr. FARRELL. That is right. I took the name of Lew Farrell, my children are named all under Farrell, and there is no reason that I am hiding or anything. It is just the idea I am going under that name.

Mr. SELLS. You say you have nothing to hide. Suppose then you tell me who your present employer is.

Mr. FARRELL. I don't have any present employer.

Mr. SELLS. You resigned as of the time you stepped in this room; is that right?

Mr. FARRELL. My last employer was Mr. Golding.

Mr. SELLS. But you haven't been employed by him since January of this year.

Mr. FARRELL. That is right.

Mr. SELLS. By whom have you been employed?

Mr. FARRELL. There is nothing to hide.

Mr. SELLS. From January of this year until the present time?

Mr. FARRELL. (No response.)

Mr. SELLS. Are you going to answer that question?

Mr. FARRELL. No. You will just have to cite me.

Mr. SELLS. Now, you have told me that you have heard of Harry Cane or Harry Cohen; which is his real name.

Mr. FARRELL. I don't know the man. I never knew him, I never had any occasion to meet him, I don't know anything about him.

Mr. SELLS. Did you ever employ him?

Mr. FARRELL. No.

Mr. SELLS. Did you ever work with him in the home-improvement field?

Mr. FARRELL. No. I have never seen the man.

Mr. SELLS. Did you ever work with Jack Wolfe, of Des Moines?

Mr. FARRELL. No.

Mr. SELLS. In any type of business activity?

Mr. FARRELL. No.

Mr. SELLS. You are very sure about that?

Mr. FARRELL. That is right.

Mr. SELLS. And you are very sure that you never purchased from

Mr. Wolfe the Universal Builders Co. of Omaha?

Mr. FARRELL. That is right.

Mr. SELLS. Do you know who did purchase Universal Builders?

Mr. FARRELL. No, sir; I do not.

Mr. SELLS. Do you know who is presently operating that concern?

Mr. FARRELL. I don't.

Mr. SELLS. Now, what is the last business connection that you had with Lew Eisen?

Mr. FARRELL. Nothing. I recommended the Alside material to Mr. Golding, and since I have a good credit rating, Mr. Golding purchased it through my name.

Mr. SELLS. Lew Eisen was the Chicago agent for Alside?

Mr. FARRELL. I don't know what his capacity is.

Mr. SELLS. Lew Eisen is the man from whom you purchased the Alside aluminum siding; is that right?

Mr. FARRELL. That is correct.

Mr. SELLS. How did you happen to make that recommendation to Mr. Golding if you didn't know Mr. Eisen pretty well?

Mr. FARRELL. Well, I seen the material.

Mr. SELLS. Isn't it a fact that you had done business with him before?

Mr. FARRELL. Oh, no.

Mr. SELLS. You are sure you had never done business with Mr. Eisen prior to the time you were employed by Mr. Golding, which I understand your testimony is, began about June 1952; is that right?

Mr. FARRELL. Yes.

Mr. SELLS. You had never done business with Mr. Eisen prior to that time?

Mr. FARRELL. Never.

Mr. SELLS. Were you familiar with his product, the Alside aluminum, prior to 1952?

Mr. FARRELL. Yes.

Mr. SELLS. When did you first learn about his product?

Mr. FARRELL. I learned about his product about 8 or 9 years ago. Some of my in-laws have it on their home.

Mr. SELLS. How many businesses altogether have you been connected with which have been involved in the home-improvement field?

Mr. FARRELL. How many businesses?

Mr. SELLS. Yes. How many different business concerns?

Mr. FARRELL. None. Have I been connected with?

Mr. SELLS. Yes. Either employed by or had a financial interest in?

Mr. FARRELL. One.

Mr. SELLS. This concern of Mr. Goldings?

Mr. FARRELL. Yes.

Mr. HOGUE. Senator Payne, this is Mr. Farrell.

Senator PAYNE. Do you want to stand and raise your right hand, please? I want to swear you in. Do you solemnly swear that the testimony you will give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. FARRELL. Yes, sir.

Senator PAYNE. Do you want to state your name and address again for the record?

Mr. FARRELL. Lew Farrell, 1115 Coulter Avenue, Des Moines, Iowa.

Mr. SELLS. Senator Payne, we have had some difficulty. Mr. Farrell has answered certain of our questions. However, there is one question which we feel is relevant to this inquiry which he has so far refused to answer and he has offered at least one reason being, first, that the person who is involved didn't give him permission to answer the question. The second reason he gave was that he has already been the victim of a smear, implying a smear by this committee.

Mr. FARRELL. No; not a smear by this committee. I would not say that.

Mr. SELLS. All right, Mr. Farrell, let's get to the point. I will ask you again: By whom have you been employed?

Mr. FARRELL. Understand I have been the victim of a smear campaign around Des Moines, Iowa, for the past 4 or 5 years, and any time that my name is mentioned and anybody associated with me is mentioned in the newspapers, for some reason they get themselves hurt, so rather than hurt them, if I was employed by anybody, I had just as soon say that I am not employed because I don't want them hurt. It is the same thing as saying that I am associated with Senator Payne. It would be the same thing. Why should he be hurt through any campaign? That is the story.

Senator PAYNE. Would you be willing to state to me what the nature of the smear is that has been used against you?

Mr. FARRELL. Well, just like all these things that have appeared in your committee now regarding Des Moines, Iowa.

Senator PAYNE. Has your name been mentioned at all?

Mr. FARRELL. A picture and everything else.

Senator PAYNE. From this committee.

Mr. FARRELL. I don't say that it comes out of this committee but for some reason—then when they claim that I declined the subpoena, which I did not—Mr. Walter called me and if Mr. Walter was here, he could verify it. Like, in other words, they say I declined the

subpena. I talked to Mr. Walter, and I said, "If there are any questions you want to ask me on the phone you ask me and I will answer them on the phone truthfully or you send me your questions not raised and I will send them back with an affidavit that they are absolutely, positively the truth, and Mr. Walter turned around and asked me a few questions, and then I said to him—my wife was expecting a child. Last Thursday we had a baby boy. So he said, "Well, I'll call you back and let you know." So the following day instead of him calling me back, there was the subpena. And yet in the newspaper on the front page; my little girl comes to me, a 3-year-old girl, and says, "Daddy, here is your picture in the paper," and it says, "Declined a subpena." In other words like I had done something wrong.

Senator PAYNE. Would you be willing to tell me what the nature of the smears are that have existed in the past?

Mr. FARRELL. Yes. You have got one; the chances are this will get out and it will hurt me some more. You have one newspaperman man who is right here in Washington, for the land sake Almighty, who came here and is still here. It has been 7 years now. Every little thing that comes, there you are.

Senator PAYNE. Well, let me say this. The reason I am asking the question is because, of course, this committee has only been working on this matter for a relatively short period of time. And you refer to the fact that anything you have been associated with apparently has created a smear, either on other people or on yourself.

Mr. FARRELL. It is a rehash and rehash of things that might have happened 20 years ago. I have got children that are growing every single day, and here they are, my boys are 8 and 7, going to school. Now, these things are 10 years old and it is always former this and former that and former the other.

Senator PAYNE. Just what is the nature of it?

Mr. FARRELL. I don't know. I wish I would know. I wish I could tell.

Mr. SELLS. Perhaps I could contribute to your edification if I asked Mr. Farrell another question or two.

Senator PAYNE. All right.

Mr. SELLS. Mr. Farrell, weren't you subpoenaed to testify before the Kefauver Crime Committee in 1951?

Mr. FARRELL. Yes; and now ask me why.

Mr. SELLS. I am going to ask the questions in my own way, Mr. Farrell.

Mr. FARRELL. Please don't take advantage of your position. Ask me why I was questioned.

Mr. SELLS. Isn't it a fact that you were questioned extensively by that committee in reference to your activities as a professional gambler, bookmaker, horserace wireman, and so forth?

Mr. FARRELL. Yes; and what happened?

Mr. SELLS. That isn't what I asked you. You admit those were the subjects of inquiry of that committee?

Mr. FARRELL. Yes, sir; that I could just as well ask you, if you belonged to any left-wing party. The same darn thing, with no proof, or no evidence.

Mr. SELLS. Senator, if you have the time, which I know you do not, here is the transcript of the Kefauver hearing.

Mr. FARRELL. That is right, and that is the reason why I don't want to mention anything here, because I am here, and you already have one side—your side of the story.

Senator PAYNE. Mr. Farrell, if I understand correctly—

Mr. FARRELL. So if I have to go to jail, I will bring this thing out and I will go to jail and we will bring it out because I have children and I am not—I am going to stop getting smeared.

Senator PAYNE. Mr. Farrell, let's have an understanding here. This committee is certainly trying to be fair in every way possible.

Mr. FARRELL. He is not fair when he brings out something that is untrue. See?

Senator PAYNE. We are endeavoring to try to get some answers.

Mr. FARRELL. Well, let me explain to you why I was called before the Kefauver committee.

Senator PAYNE. Go ahead. Proceed.

Mr. FARRELL. I will tell you why.

(Stricken, by request of Senator Payne.)

Senator PAYNE. Now, Mr. Farrell, let me ask you this question over again.

Mr. FARRELL. Now, this transcript will get out and the newspapermen will still keep it up, that's all. So now if I start selling tires or something they will say that I am selling tires that are made out of—

Senator PAYNE. Let me ask you this question: Are you employed at the present time?

Mr. FARRELL. No, sir; I am not.

Senator PAYNE. You are not employed?

Mr. FARRELL. No, sir.

Senator PAYNE. Were you employed a week ago?

Mr. FARRELL. Yes, sir.

Senator PAYNE. Were you paid a salary?

Mr. FARRELL. Yes, sir.

Senator PAYNE. And is that salary—has that salary been reported for income-tax purposes?

Mr. FARRELL. Well, now, the year isn't up but it will be, surely.

Senator PAYNE. Are you under withholding?

Mr. FARRELL. Yes.

Senator PAYNE. Then, there would be a declaration of the withholding tax, payable on a quarterly basis, wouldn't there?

Mr. FARRELL. I would think so.

Senator PAYNE. So it would be a matter of record in the internal revenue offices, wherever that is declared, as to who your employer is; isn't that correct?

Mr. FARRELL. Yes; sure.

Senator PAYNE. With that knowledge, do you care to say now who employed you a moment ago?

Mr. FARRELL. Well, I wouldn't want to state it as something Lew Farrell said because when Lew Farrell says something it is always associated—

Senator PAYNE. In other words, you would rather have us find it out through the internal revenue office?

Mr. FARRELL. Well—

Senator PAYNE. Were you discharged?

Mr. FARRELL. Can I ask you one thing?

Senator PAYNE. Of course, I am asking the questions, but again I want to be fair. Yes.

Mr. FARRELL. I would like to ask you a question.

Senator PAYNE. You go ahead.

Mr. FARRELL. Could you take out of that record there what I just got through saying about my alcohol tax unit hearing, and who was picking on me? Would you promise me that?

Senator PAYNE. I have no objection whatever of taking out of the record any reference you made.

Mr. FARRELL. Would you take out of the record, so that it won't appear in there, anything that has nothing to do with the questions of FHA title I? In other words, any conversation that has come up that is not your questions—all right?

Mr. SELLS. I might say this, Mr. Farrell, most of the things in that record that you now want withdrawn are in there because you yourself volunteered to put them in here.

I want to make it clear. It is not my prerogative to take anything out of that record. Anything taken out of that record must be taken out of there by the committee, and Senator Payne is here now. Now, whether the Senator would presume to speak for the entire committee, that I do not know. I have no power to take anything out of that record.

Senator PAYNE. Before it would be taken out, I would want to know, after all, in lieu of what information you are going to put in the record.

In other words, if all reference to the so-called alcohol tax case is stricken from the record, what power is it that you now want to give pertaining to your present employment, your recent employment having to do with title I, that you are willing to put in the record?

Mr. FARRELL. As far as that is concerned—

Senator PAYNE. You know very well it is a matter of record who you have been working for, and this committee can determine that through the Internal Revenue Service. If you don't want to give it, you are perfectly within your rights not to give it, but it is going to be a matter of record and it will be information available to the committee and it would be far more cooperative for you to provide the information in executive session.

Mr. FARRELL. I appreciate that, Senator Payne, as far as I am concerned, but I mean I have nothing that I have got to hide. The only thing, just like I say, I just don't like any—to be smeared. This gentleman here presents that book. I mean he has a one-sided view already.

I mean he doesn't question me with an unbiased opinion. He questions me with a view that I come in here just like as if I am a vulture.

Senator PAYNE. Let me say this: I have sat with the committee and I have sat with the members of the staff of this committee and never once have I ever seen one invitation on the part of any member to try to abuse anyone. We are just trying to get the information on the record. We are trying to do, as far as is humanly possible, with the cooperation of people who will cooperate, to try to get this thing straightened out in the interests of all of the people of this country.

Now, if people don't want to cooperate, that is their business. There are other methods that you can proceed by, but I think that you will

find that there has not been a single word ever coming out of this executive committee that has gone to the press, that has gone to anyone. The only time that it has ever happened is when the matters have been brought in before a public hearing, and the full rights of the individual are protected.

Mr. FARRELL. I am sorry I didn't bring the newspapers along.

Senator PAYNE. This committee can't govern what the newspapers write.

Mr. FARRELL. But you say nothing comes out of this hearing room. It seems to me like every word comes out of this room.

Senator PAYNE. No, sir; there is not.

Mr. FARRELL. Then, there must be some wires tapped, or something.

Senator PAYNE. You must recognize this, that this is the Senate Banking and Currency Committee.

Mr. FARRELL. And I have very much respect and high regard for it.

Senator PAYNE. Just remember this, that in addition to the work that this committee is doing, the FHA is doing work of its own. Am I correct on that?

Mr. SELLS. That is correct.

Senator PAYNE. The Internal Revenue Department and the Justice Department is doing work of its own. We have no control over what they do. I am saying, insofar as this committee is concerned, there has never to my knowledge ever come out of the executive session one single word. In fact, in few instances have they ever known who was in here even talking with the committee.

I think you are getting the public sessions confused with the executive sessions. When you get into public sessions that is another thing; that is open.

Mr. FARRELL. Senator, I am not. I mean this here has been an issue in our newspaper for the past week. You have had front-page coverage. I think you had four columns, full-page columns, left hand, important side and the second time had my picture right on the front, with a full column.

Senator PAYNE. We have no publicity artist on this committee that I know of.

Mr. FARRELL. It is always former this and former that and former the other.

Senator PAYNE. Are you willing to state who you are employed by now?

Mr. FARRELL. Well, I was employed. Let's put it that way.

Senator PAYNE. How recently?

Mr. FARRELL. Well, just last week, let's say, by the Universal Builders.

Senator PAYNE. And who is the president of Universal Builders?

Mr. FARRELL. John D'Arco.

Senator PAYNE. Where is his home?

Mr. FARRELL. His home is in Omaha. It is a branch office.

Senator PAYNE. What is their principal business?

Mr. FARRELL. Home remodeling.

Senator PAYNE. What was your capacity with them?

Mr. FARRELL. Office manager in the Des Moines office.

Senator PAYNE. Now, with that, I have no objection, in view of your—

Mr. FARRELL. If this comes out, I am going to send it to you special delivery.

Senator PAYNE. If it comes out of this executive session.

Mr. FARRELL. Did I tell you about my picture being in the paper where they claim I declined the subpoena?

Senator PAYNE. No.

Mr. FARRELL. There was a picture in the paper last week. In other words, I talked with Mr. Walter for 2 days.

Senator PAYNE. Yes, you went over that while I was here.

Mr. FARRELL. In the newspaper it came right out that I declined.

Senator PAYNE. Let me say to you because I want to be fair: If you still insist, in view of the fact that you have now come forward with the information just given, if you still insist that the reference to the alcohol tax hearing should be eliminated from the record, I will take the responsibility and ask that that be stricken. Now, you can't say that isn't fair, can you?

Mr. FARRELL. I want to tell you I haven't any halo on my head but I have four children. You don't like to have something like that in.

(Stricken, by request of Senator Payne.)

Senator PAYNE. Now, do you want that to go in the record?

Mr. FARRELL. Yes.

No, as long as we take off all Alcohol Tax Unit, we will keep that off, too.

(Stricken, by request of Senator Payne.)

Senator PAYNE. We have cleared up everything in connection with the so-called Alcohol Tax Unit situation, so now let's get back to title I.

Mr. SELLS. I might say this, Mr. Farrell, I have no feelings of conscience. This document that I referred Senator Payne to is available to any member of the public. This is a record of the hearings of the Kefauver committee. You yourself may obtain a copy of these. You will probably find that the public library in your own home city has a copy of that.

Mr. FARRELL. I know, but you shouldn't have that in front of you because that has nothing to do with FHA title I and why should you be biased by wrong information?

Mr. SELLS. The only concern that I have with that is that we have the correct Lew Farrell here before this committee, and you have already indicated that you are the Lew Farrell whose real name or whose born name was Louis Fratto.

Mr. FARRELL. That is right.

Mr. SELLS. And you will recall that that was the only question that I asked you.

Mr. FARRELL. Dennis James wasn't born Dennace James, either. I fought under the name of Lew Farrell. There is no secret.

Mr. SELLS. O. K., Mr. Farrell.

Mr. FARRELL. I mean was I convicted? The only thing I was convicted of there perhaps is by people who read it maybe. I was convicted by a fellow like you who is convinced by reading that.

Mr. SELLS. Mr. Farrell, look. Let me point this out. You yourself keep putting these things in the record. By volunteering these statements.

Mr. FARRELL. What statements?

Mr. SELLS. You just volunteered a statement about your being convicted. Nobody asked you that question.

Mr. FARRELL. I say I am convicted as far as opinion is concerned.

Mr. SELLS. Well, let's get on with our inquiry.

You have just told Senator Payne that you are employed by Universal Builders.

Mr. FARRELL. Yes.

Mr. SELLS. Is that the firm whose home office is in Omaha?

Mr. FARRELL. Umhum (yes).

No, I am not employed by him any more.

Mr. SELLS. But you were up until a week ago?

Mr. FARRELL. Yes.

Mr. SELLS. That is the firm that you denied a few minutes ago knowing anything about or having any connection with.

Mr. FARRELL. Universal—no, you asked me if I had anything to do with Universal Builders—Jack Wolfe.

Mr. SELLS. Isn't this the same Universal Builders that Mr. Wolfe at one time owned?

Mr. FARRELL. No. Absolutely not.

Mr. SELLS. Are you sure about that?

Mr. FARRELL. Yes. Universal Builders, today, doesn't have anything to do with Mr. Jack Wolfe.

Mr. SELLS. That isn't the question. Isn't it the same or a successor firm to the Universal Builders Mr. Wolfe organized?

Mr. FARRELL. No, it isn't.

Mr. SELLS. When was this firm organized?

Mr. FARRELL. This firm was organized about 4 or 5 months ago.

Mr. SELLS. Is it incorporated?

Mr. FARRELL. I don't know whether it is or not. I don't have any personal knowledge.

Mr. SELLS. Who owns the firm?

Mr. FARRELL. I know that D'Arco is president. That is the only thing that I know.

Mr. SELLS. Do you have any interest at all in the firm?

Mr. FARRELL. No, sir, I do not.

Mr. SELLS. You were employed by them up until about a week ago, making a total of what, 6½ months?

Mr. FARRELL. About 5 or 6 months.

Mr. SELLS. As general manager, is that correct?

Mr. FARRELL. Yes.

Mr. SELLS. You were in charge of general operations?

Mr. FARRELL. Yes.

Mr. SELLS. In the home improvement field?

Mr. FARRELL. Yes.

Mr. SELLS. And again, was some of your business or a part of your business at least, financed under title I, of the National Housing Act?

Mr. FARRELL. Of my business?

Mr. SELLS. Well, the business of Universal Builders?

Mr. FARRELL. Yes. Yes.

Mr. SELLS. Now, while you were with Universal Builders how many salesmen were working out of that company, or for that company?

Mr. FARRELL. I would say maybe 7 or 8.

Mr. SELLS. A total during that period of 7 or 8?

Mr. FARRELL. Yes, sir.

Mr. SELLS. Were those salesmen on the company payroll or were they what we have come to call independent contractors?

Mr. FARRELL. Independent contractors.

Mr. SELLS. In other words, they go out and solicit a sale, obtain a contract, and then bring that back into the company, is that correct?

Mr. FARRELL. Yes.

Mr. SELLS. Who generally, while you were with that company, exercised control over the salesmen? That is who directed the salesmen as to their selling and what kind of contracts they were to use and so forth?

Mr. FARRELL. In the——

Mr. SELLS. Well, let's take the most recent one, Universal Builders.

Mr. FARRELL. Who told the salesmen?

Mr. SELLS. Yes. I mean how to go out and make a sale and what kind of contract to solicit?

Mr. FARRELL. They done it themselves.

Mr. SELLS. Did you provide a contract form for them?

Mr. FARRELL. Well, the office provides the contract, yes.

Mr. SELLS. Did the office also provide them with title I loan applications?

Mr. FARRELL. Yes.

Mr. SELLS. And with credit report applications?

Mr. FARRELL. Yes.

Mr. SELLS. And blank notes?

Mr. FARRELL. Yes.

Mr. SELLS. And completion certificates?

Mr. FARRELL. Yes.

Mr. SELLS. All of those were supplied to the salesmen by the company. That is by Universal Builders, Inc.?

Mr. FARRELL. That is right.

Mr. SELLS. Did anybody in the company exercise any direct control over the selling methods that were used?

Mr. FARRELL. Nobody.

Mr. SELLS. In other words, the salesmen were free to use any kind of sales approach or sales pitch that they chose?

Mr. FARRELL. Oh, no. In other words, they were told that people had to know what they were buying, how much they were paying.

Mr. SELLS. Who told them that?

Mr. FARRELL. Who told them that?

Mr. SELLS. Yes.

Mr. FARRELL. Well I did.

Mr. SELLS. You did?

Mr. FARRELL. Yes.

Mr. SELLS. Then you did exercise some control over them, is that right?

Mr. FARRELL. Well, I would explain it to them, yes.

Mr. SELLS. Did you see that they carried out those suggestions and dealt fairly with the public?

Mr. FARRELL. Well, I would have, had we any complaints, but we hadn't gotten any complaints on them.

Mr. SELLS. You had no complaints at all while you were with Universal Builders?

Mr. FARRELL. No, because business wasn't that big. It was a very small business.

Mr. SELLS. How big was it during that 6 months' period? How much business did you do, Mr. Farrell?

Mr. FARRELL. An average of maybe two jobs a week.

Mr. SELLS. Well, how big were those jobs?

Mr. FARRELL. Say an average of about \$800 apiece, or something like that.

Mr. SELLS. In other words, \$1,600 of business a week is about all you did?

Mr. FARRELL. Yes.

Mr. SELLS. Could you give us the names of the seven salesmen you employed during that period?

Mr. FARRELL. Linzmeyer.

Mr. SELLS. Will you spell that, please, for the reporter?

Mr. FARRELL. L-i-n-z-m-e-y-e-r. And Robert Redfern, R-e-d-f-e-r-n. L. H. Hansen, H-a-n-s-e-n. Paul Woods, W-o-o-d-s. And Yale, Y-a-l-e, Smith, S-m-i-t-h. That is about it.

Mr. SELLS. That is five. Were there more than that?

Mr. FARRELL. That is about the size of it. That is it.

Mr. SELLS. While these individuals were employed by you, Mr. Farrell, did you learn that some of them had criminal records?

Mr. FARRELL. Had criminal records? Oh, no. None of them.

Mr. SELLS. Are you sure about that?

Mr. FARRELL. I am positive.

Mr. SELLS. Did you take any steps to make sure that none of them did?

Mr. FARRELL. Well, I knew their family background was pretty good. They are all family boys.

Mr. SELLS. What do you mean by "family boys"? We all have families.

Mr. FARRELL. Mr. Woods has five children and lives right in Des Moines, Iowa. He is a pillar in the church. Mr. Hansen has five children and is a very clean-cut fellow. Mr. Smith comes from a very good family and is a single man. He was going into the priesthood and changed his mind. Redfern, the same thing.

Mr. SELLS. Now, to your knowledge, Mr. Farrell, during the time that you were with Universal Builders, the 6 months' period in the early part of this year, did any of your salesmen ever use the model-home pitch?

Mr. FARRELL. Oh, no.

Mr. SELLS. You know what that is?

Mr. FARRELL. I have heard of it many, many times.

Mr. SELLS. Didn't you in fact know that your salesmen used it while you were employed by the other concern for the other year and a half? That is Mr. Golding's concern.

Mr. FARRELL. No; absolutely not.

Mr. SELLS. Are you positive about that?

Mr. FARRELL. Positive.

Mr. SELLS. Where did you first hear about the model home pitch?

Mr. FARRELL. Oh, gee. Television. You hear it on radio, you hear it in the newspaper.

Mr. SELLS. Did you ever make any sales yourself, Mr. Farrell?

Mr. FARRELL. Yes, I did.

Mr. SELLS. When?

Mr. FARRELL. I made three of them.

Mr. SELLS. In all your experience you only made three sales?

Mr. FARRELL. That is right.

Mr. SELLS. When were those?

Mr. FARRELL. Within the last 5 or 6 months. I thought I could sell.

Mr. SELLS. You never made any sales before?

Mr. FARRELL. Never.

Mr. SELLS. Either for yourself or while you were employed by someone else?

Mr. FARRELL. That is right. And I lost money on all three of them.

Mr. SELLS. Why was that?

Mr. FARRELL. Because I didn't know how to make—I didn't know how to ask for money with a profit, I suppose.

Mr. SELLS. While you were general manager for Universal Builders, when your salesmen went out to make a sale, did they, if they made a sale and obtained a contract, did they get the title I loan application filled out at that time?

Mr. FARRELL. If they made the sale?

Mr. SELLS. Yes. In other words, if they talked the homeowner into buying the product and they got a contract, did they also get the title I home loan application filled out at the same time?

Mr. FARRELL. Well, that home loan application has to be called in to the bank, isn't that true, so you do get the application at the same time.

Mr. SELLS. That is what I asked you. I don't know what is true and what is not. As Senator Payne has pointed out, that is what we are trying to find out, Mr. Farrell.

Mr. FARRELL. That is right.

Mr. SELLS. All right. So they got the title I loan application filled out at the time of the sale; is that right?

Mr. FARRELL. At the same time.

Mr. SELLS. Was it signed by the homeowner, with the body of the application left blank to be filled in when it was brought back to the office?

Mr. FARRELL. Well, it was—I don't know just exactly—in other words, everything was done legal.

Mr. SELLS. Again, may I say, Mr. Farrell, now you have injected a word in the record which nobody else has used. Nobody else said anything about it being legal or illegal.

Mr. FARRELL. They have an application where they put down how much they owe. What their equity in the house is.

Mr. SELLS. That is the credit-statement part of it.

Mr. FARRELL. That is the part, that is right.

Mr. SELLS. Did your salesmen ever bring one of those in that was signed by a homeowner with all of that information left out?

Mr. FARRELL. No, never did.

Mr. SELLS. You are sure about that?

Mr. FARRELL. Positive.

Mr. SELLS. Did any of the salesmen ever bring such a credit statement in while you were general manager of the other concern, Mr. Golding's concern?

Mr. FARRELL. Yes.

Mr. SELLS. They brought them in in blank, sometimes?

Mr. FARRELL. No, never did.

Mr. SELLS. You are sure about that?

Mr. FARRELL. Yes.

Mr. SELLS. All right, now we have disposed of the credit application. How about the body of the title I loan application, itself? Was that ever left blank?

Mr. FARRELL. No. Everything was done right.

Mr. SELLS. How about the notes? Were they ever signed by the homeowners, the customer, with the body of the note left blank?

Mr. FARRELL. Never.

Mr. SELLS. Are you sure none of the salesmen who ever worked for you while you were general manager of either of these concerns—

Mr. FARRELL. Never. The customer always knew what he was signing.

Mr. SELLS. Did any of these customers of yours or any of these salesmen ever sign a completion certificate before the work was done?

Mr. FARRELL. Never.

Mr. SELLS. You are absolutely sure about that?

Mr. FARRELL. Positive.

Mr. SELLS. That is while you were general manager of both of these concerns?

Mr. FARRELL. That is right.

Mr. SELLS. You are equally sure that none of the salesmen that you ever were associated with while you were with either company ever used the model-home pitch to make a sale?

Mr. FARRELL. Never did. Never.

Mr. SELLS. Did they ever use the kickback pitch, which, as I understand, is just a slight variation of the model-home pitch?

Mr. FARRELL. Do you mean bring back money—

Mr. SELLS. Kickback money. If the homeowner gets another sale, he gets so much kickback or commission.

Mr. FARRELL. No.

Mr. SELLS. They never used that?

Mr. FARRELL. Why would they give money back to the homeowner if they made a sale?

Mr. SELLS. That isn't what I asked you. I didn't ask you why, I asked if any of the salesmen ever used that.

Mr. FARRELL. They never did. I read about that.

Mr. SELLS. Are you sure about that?

Mr. FARRELL. Positive. I am under oath. There has never been any kickbacks or any bonuses or anything like that while I had anything to do with either office.

Mr. SELLS. You became general manager for Mr. Golding's company, as I understand it, in about June 1952.

Mr. FARRELL. A little bit later than that. Around August, I think it was. Around August.

Mr. SELLS. All right, in August.

Mr. FARRELL. That is right.

Mr. SELLS. You were employed by him until about January, this year?

Mr. FARRELL. That is right.

Mr. SELLS. Did you draw a salary?

Mr. FARRELL. Yes.

Mr. SELLS. Was that a straight salary or was that based on the amount of sales made by the salesman?

Mr. FARRELL. Straight salary.

Mr. SELLS. Did you draw any additional compensation in the way of an overwriteoff of the sales made by the salesmen?

Mr. FARRELL. I did not.

Mr. SELLS. You were employed by Golding up until January of this year; is that right?

Mr. FARRELL. That is right.

Mr. SELLS. And then you associated yourself with Universal Builders, whose home office is in Omaha; is that right?

Mr. FARRELL. Yes.

Mr. SELLS. But, as I understand it, you have an office in Des Moines for the same company.

Mr. FARRELL. That is right.

Mr. SELLS. And that is Mr. D'Arco's firm?

Mr. FARRELL. That is right.

Mr. SELLS. Are you on a salary there?

Mr. FARRELL. Yes.

Mr. SELLS. Do you draw any commission or overwriteoff of any of the business that is written by the salesmen?

Mr. FARRELL. No.

Mr. SELLS. Have you?

Mr. FARRELL. No, sir.

Mr. SELLS. With the exception of these two firms, Mr. Golding's firm and Mr. D'Arco's firm, is this the only experience that you ever had in the home-improvement field?

Mr. FARRELL. That is right.

Mr. SELLS. What did you do during that period from 1950 to 1953?

Mr. FARRELL. Nothing. Not a thing.

Mr. SELLS. A gentleman of leisure?

Mr. FARRELL. No; I wasn't a gentleman of leisure. I just kept looking around and trying to do something, trying to find something to do.

Mr. SELLS. Did you have any income at all during that period?

Mr. FARRELL. No, I did not.

Mr. SELLS. None at all; is that correct?

Mr. FARRELL. None at all.

Mr. SELLS. Did you file any Federal tax returns during that time?

Mr. FARRELL. Yes, I filed Federal tax returns.

Mr. SELLS. Did you report any income on those returns?

Mr. FARRELL. No, sir; I did not.

Mr. SELLS. And it is your testimony that during those 2 years you lived off of accumulated income; is that correct?

Mr. FARRELL. That is right. Whatever little money I had and whatever insurance I had.

Mr. SELLS. Prior to 1950, what was your business, Mr. Farrell?

Mr. FARRELL. Beer business.

Mr. SELLS. What was your business?

Mr. FARRELL. Beer business.

Mr. SELLS. The beer business?

Mr. FARRELL. Yes.

Mr. SELLS. You were, as I understand it, a beer distributor; is that right?

Mr. FARRELL. A beer distributor, that is right.

Mr. SELLS. For what concern?

Mr. FARRELL. For what concern? Superior Distributing Co. I was an owner.

Mr. SELLS. You were an owner of that concern?

Mr. FARRELL. Yes.

Mr. SELLS. Is that solely a wholesaler distributing concern?

Mr. FARRELL. Wholesale distributing.

Mr. SELLS. What kind of beer did you handle?

Mr. FARRELL. Blatz.

Mr. SELLS. Chiefly?

Mr. FARRELL. Mainly.

Mr. SELLS. What area did you serve?

Mr. FARRELL. Eleven counties out of Des Moines, Iowa.

Mr. SELLS. Surrounding territory around Des Moines?

Mr. FARRELL. Yes.

Mr. SELLS. How long were you in that business, Mr. Farrell?

Mr. FARRELL. I was in the beer business since 1939.

Mr. SELLS. Now, I want to ask this question once more while Senator Payne is here. Have you ever had any business or financial connection or association with Jack Wolfe?

Mr. FARRELL. I have never, positively, definitely, or any other word, had any connection with Jack Wolfe in any way, financial or otherwise.

Mr. SELLS. You have never been employed by him?

Mr. FARRELL. Never.

Mr. SELLS. You never purchased a business from him?

Mr. FARRELL. Never.

Mr. SELLS. Or participated in purchasing a business from him?

Mr. FARRELL. Never.

Mr. SELLS. Do you know whether there was a company which preceded Universal Builders of Omaha—a company with which you were just recently employed—by that same name? Was there a prior company?

Mr. FARRELL. Yes; I heard of the name, but I had nothing to do with it.

Mr. SELLS. You made that clear already.

Mr. FARRELL. All right.

Mr. SELLS. In fact, as I understand your testimony, the Universal Builders, Inc., of Omaha, that you were employed by, was not incorporated until early in 1954, is that right?

Mr. FARRELL. That is right.

Mr. SELLS. Do you know who owned the prior company by that name?

Mr. FARRELL. No.

Mr. SELLS. Do you know whether Mr. D'Arco had any interest in the prior company?

Mr. FARRELL. I don't believe he did.

Mr. SELLS. It is your testimony that you had no interest whatsoever, no ownership or financial interest in the company by whom you were employed?

Mr. FARRELL. That is right.

Mr. SELLS. Or the prior company?

Mr. FARRELL. That is right.

Mr. SELLS. Do you know whether Mr. Wolfe had any interest in the prior company?

Mr. FARRELL. I don't know that. I couldn't answer that.

Mr. SELLS. I am satisfied, Mr. Farrell, and I think Senator Payne is, too, that you have answered the majority of the questions that I am primarily concerned with. I don't propose to push the inquiry much further. You have indicated that you have some rather strong feelings on the subject. But I am going to ask one question, which I think will save you and myself and possibly the rest of the committee a great deal of time and possibly some embarrassment on both sides. It can be answered either "Yes" or "No," and if you answer the single question, I don't intend to explore it further:

You do have a police record, do you not?

Mr. FARRELL. I do have a police record? Well, let me ask you one thing—I know you are asking the questions. What does a police record constitute?

Mr. SELLS. That includes arrests, apprehensions, pickups, investigations, convictions. So far as I am concerned, I am using the term that way.

Mr. FARRELL. I have been arrested—picked up, rather—but I have never been convicted.

Mr. SELLS. Then, again, I say you can answer my question "Yes" or "No." You do have a police record?

Mr. FARRELL. Up until 1939, I mean that was the last time that I was just picked up, I mean, but no record of any kind, I mean that I have never been convicted of anything. See?

Mr. SELLS. Senator Payne, I think you will realize I have tried to be fair in asking this question.

I said if you answered my question "Yes" or "No" I didn't intend to explore it further.

Isn't it a fact that in 1942, you were involved in an investigation in Des Moines having to do with gambling operations? Now, you gave the year 1939.

Mr. FARRELL. 1942? I was investigated but nothing came out of it.

Mr. SELLS. Is it your testimony that you have no police record of any kind from 1942 up to date?

Mr. FARRELL. That is right.

Mr. SELLS. You have not been picked up, investigated, arrested or convicted, from 1942, up to the present time?

Mr. FARRELL. That is right. Can we put something else into the record?

Mr. SELLS. Well, let me make this clear. Senator Payne, I have asked the questions that I want to ask. Mr. Kenney may have some questions. You may have further questions.

Mr. FARRELL. May I have one free question?

Mr. SELLS. After they have asked the questions they have.

Mr. FARRELL. I mean on that one particular subject.

Mr. SELLS. Let me make this clear, Mr. Farrell. The committee will accord any witness the right to make any statement that they want to make.

Mr. FARRELL. As long as you bring out one thing—you know what I mean, about arrests, the color and the discolor and everything else, let's put it this way: That in 35 years of the junior chamber of commerce that had a turnover of 8,000 members in the city of Des Moines I am one of the 14 honorary members, one of the 14 honorary charter members of the junior chamber of commerce.

Mr. SELLS. We are glad to have that in the record, Mr. Farrell.

Mr. FARRELL. I have also the Italian plaque for the one who had done more work for the Italian people in the year 1945. And I have received many, many awards, and they aren't do-good awards, they were awards from the bottom of my heart. Now, just because—I mean that I happen to live in the dead-end neighborhoods and everything else and everybody picked up and everything else, I mean I don't think that that record should continue to arrest me now that I am a family man. I mean—and maybe some day when you become my age and you have a family, maybe you will understand it, too.

Mr. SELLS. Mr. Farrell, I understand right now, but as Senator Payne has pointed out, this committee can only—

Mr. FARRELL. Let me tell you something, when that little girl came to me the other morning, 3 years old, and said, "Daddy, your picture is in the paper," well, I am just going to tell you something, it is a good thing that I could hold my head. Those are the things that get you. And I don't think they should keep continuing to follow me.

Mr. SELLS. Senator Payne—

Senator PAYNE. No questions.

Mr. SELLS. Mr. Kenney—

Mr. KENNEY. No questions.

Mr. SELLS. Once again I will extend you this invitation which we extend to every witness before this committee. If you feel there is any statement you want to make, if you feel there is any explanation you want to offer of any of the questions or answers that have been asked and given here, we will give you this opportunity to make any statement for the record that you want to make.

Mr. FARRELL. Well, is there any reason why I cannot continue to be employed by any company handling FHA paper, where I have to be embarrassed or embarrass any company that I am working with, so that I can make a living? Is there any reason for that?

Mr. SELLS. Have you been placed on the FHA precautionary list?

Mr. FARRELL. I never have. I never have.

Mr. SELLS. I can't answer that question, Mr. Farrell. I can't answer that question for this reason: This committee is investigating this entire field for one reason and one reason only and that is, because the whole field of home improvements has been used as a field to practice fraud, dishonesty, unethical selling practices. Now, until that situation is cleaned up, until the homeowners are no longer victimized, I think in fairness—and I think Senator Payne would agree with me—that an individual such as yourself who, maybe through no fault of your own within recent years—I am not the judge; Senator Payne, I think has made that clear; we are not sitting in judgment, despite what you may think—that anyone such as yourself who has the background that you have, is bound to be suspect, so long as this field is used and misused as it has been.

Do I make myself clear, Mr. Farrell? You may be an innocent victim of practices that other individuals have engaged in. Do you follow me?

Mr. FARRELL. If I have nothing to do with a sale, can I be working in an office?

Mr. SELLS. As I say, I did not sit in judgment.

Mr. FARRELL. Well, you are sitting in judgment when you say that because of my background—I don't know what background I have that is so bad, outside of a background that was created.

Mr. SELLS. The purpose of this investigation is to change the laws so that the practices which grew up in this home improvement field will not continue and will not occur again.

Senator Payne is one of the gentlemen whose responsibility it is to see that those things don't happen again. Now, I can't answer your question, Mr. Farrell, and I don't know that the Senator can, either.

You have answered the questions that I wanted to ask you and that is all that I have, Mr. Farrell.

You have anything else, Mr. Kenney?

Mr. KENNEY. I have nothing else.

Mr. FARRELL. Another thing. Would you put in the record that I did not decline the subpoena, as was stated?

Mr. SELLS. I have given you the opportunity to make any statement for the record that you want to make, Mr. Farrell. You can put any statement in that you wish.

Mr. FARRELL. Is that record now about my splurge against the fact of my Alcohol Tax Unit going to be taken out of the record?

Senator PAYNE. That I ask to be removed from the record.

Mr. SELLS. You want that one statement removed that you launched into when you were trying to explain to Senator Payne that you had some strong feelings because of the Alcohol Tax Unit investigation. That is the statement you are referring to, is that correct?

Mr. FARRELL. Anything that has to do with the Alcohol Tax Unit, or against the fact of the statements that appeared in the paper.

All right, anything that goes against the Alcohol Tax Unit.

Mr. SELLS. That is pretty broad. You have made a lot of statements and you made a number of them against this committee.

Mr. FARRELL. I didn't make any against this committee. I say that you are biased against me. I will say that. I believe that, sincerely.

Senator PAYNE. I can go along with all the references that you have made with reference to the Alcohol Tax Unit situation. That I would agree to have stricken.

Mr. SELLS. That is all that I think of. Mr. Farrell, you are going to be served with a subpoena to appear at a public session before this committee in Chicago. I will ask that you wait a few minutes. The subpoena is on its way.

Mr. FARRELL. In public session?

Mr. SELLS. Yes.

Since you have indicated that you did not decline service of a subpoena to appear before this executive session I assume you are willing to wait for the subpoena from the public session, is that correct?

Mr. FARRELL. Why would you want to subpoena me before—

Mr. SELLS. I cannot answer that question, Mr. Farrell. I work for this committee. I am not the committee. I want you to understand that. Senator Payne has already made it clear to you that those of us on the staff of this committee are doing a job for the committee. Now, will you wait a few moments until that subpoena arrives?

Mr. FARRELL. I have no other alternative.

Senator PAYNE. Is that all you need me for?

Mr. KENNEY. That is all.

Mr. SELLS. That is all. Thank you very much, Senator.

Mr. FARRELL. What kind of a session will that be in Chicago?

Mr. SELLS. You can close the record. You don't want this on the record, do you?

Mr. FARRELL. No.

(Whereupon, at 3:15 p. m., hearing in the above matter was concluded.)

(This concludes the testimony of Mr. Wolfe and Mr. Farrell in executive session.)

The CHAIRMAN. Mr. Corrigan will not be on at 2 o'clock today but will be the first witness at 10 o'clock tomorrow morning?

Did you talk to me a minute ago?

Our first witnesses this afternoon will be from the General Accounting Office. Will you please come forward, gentlemen? All three of you will be talking? If so, we will have to swear all three of you, please.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

#### TESTIMONY OF OWEN A. KANE, WILLIAM A. NEWMAN, JR., AND JOHN DELMORE, GENERAL ACCOUNTING OFFICE

Mr. KANE. I do.

Mr. NEWMAN. I do.

Mr. DELMORE. I do.

The CHAIRMAN. Will you give your names to the reporter? I might say that these three gentlemen are—please give your names and titles.

Mr. KANE. Mr. Chairman, I am Owen A. Kane, legislative attorney, Office of the Comptroller General.

Mr. NEWMAN. My name is William A. Newman, Jr., Associate Director of Audits, General Accounting Office.

Mr. DELMORE. My name is John Delmore. I am the supervisory auditor with the GAO.

The CHAIRMAN. You will remember some 2 or 3 weeks ago we asked the General Accounting Office to audit the books of the Johnathan Woodner Corp., and all of its subsidiaries. These three gentlemen, together with others, have been working on that project since that time. First we will ask you a couple of preliminary questions and we want you to tell us exactly your experience with the Woodner companies, give us any reports you may have or any information that relates to the condition of that company in respect to FHA-guaranteed mortgages.

Mr. Counsel, you have a couple of questions?

Mr. SIMON. How many auditors from GAO worked on this project?

Mr. DELMORE. Ten.

Mr. SIMON. The work was done in space at the Woodner Hotel that was provided by Mr. Woodner?

Mr. DELMORE. That is right.

Mr. SIMON. What hours did they work?

Mr. DELMORE. About 8:30 to 5.

Mr. SIMON. Full time, 5 days a week?

Mr. DELMORE. Yes.

The CHAIRMAN. How many days did they work, if you remember?

Mr. DELMORE. I went over there on August 9 and on August 11 I brought in 4 people, and then the balance of the 5 came in at various times so that the 10 of us were over there approximately 6 or 7 weeks.

Mr. SIMON. Six to seven weeks, ten auditors from the GAO?

Mr. DELMORE. Yes, sir.

Mr. SIMON. You finished this report about 7 o'clock last Saturday night?

Mr. DELMORE. That is right.

Mr. SIMON. You do have a written report to the chairman from the Comptroller General?

Mr. NEWMAN. Yes, sir.

The CHAIRMAN. What was that, please?

Mr. SIMON. They do have a written report from the Comptroller General to the chairman of this committee.

The CHAIRMAN. Suppose you read that report. Do you have any extra copies of it?

Mr. KANE. Mr. Chairman, I have a short statement here that I would like to read.

The CHAIRMAN. Do you have extra copies?

Mr. KANE. We have extra copies.

The CHAIRMAN. This is copies of the statement you wish to read?

Mr. KANE. Yes. And we have a report.

The CHAIRMAN. Do you have extra copies of the report?

Mr. KANE. Yes, we do, Mr. Chairman.

Mr. Chairman, the General Accounting Office is pleased to be here this morning to discuss the information furnished the committee in the report of the Acting Comptroller General, Frank H. Weitzel, dated September 30, 1954, on the audit of the Woodner books and records. The audit was made pursuant to the chairman's letter of August 12, 1954, requesting the Office to examine and furnish the committee certain information as disclosed by the books and records subpoenaed by the committee and located in the Woodner Building under the joint custody of the committee and the owners.

Furnishing assistance to the Congress and its committees is one of the most important duties assigned to the General Accounting Office by the Budget and Accounting Act of 1921.

The CHAIRMAN. If there aren't sufficient copies of the statement and the report for the press, will you each share a copy between you so that everybody that is interested may get a copy?

Mr. KANE. That act, as you know, Mr. Chairman, created the Office as an independent nonpolitical agency in the legislative branch. The confidence you placed in us in seeking our assistance in such an important phase of the committee's investigation of the Federal Housing Administration insurance program is gratifying.

The committee was notified on August 17, 1954, that a preliminary examination of the books indicated that the information would not be readily determinable because of the manner in which the records has been maintained. Upon closer examination this early appraisal was definitely confirmed. All the records, documents, and satisfactory explanations from company representatives were not furnished us, and

accordingly we are unable to complete the audit. In this connection the Acting Comptroller General advised you on September 30, 1954, that no action will be taken pending your further instructions.

The preliminary audit findings contain sufficient information warranting a conclusion that in all probability the Woodner Hotel construction funds were improperly used. For example, \$7,000 worth of paintings, charged to construction costs, have not been located in the building. Also, personal expenses were charged, including detective fees. A fantastic \$281,000, representing a refund of deposit, was credited to Mr. Woodner's personal account, the propriety of which is highly questionable. Such charges, of course, inflated the cost of the project, which in turn requires the deluxe rental rates that are paid by the tenants in addition to jeopardizing the Government's interest as insurer of the mortgage. In a minute my associates will give details on these and other items.

Mr. Chairman, when we testified before your committee in April of this year, you may recall our complete endorsement of your suggestion that the Government should have authority to require persons operating with FHA mortgage-insurance funds to maintain proper records and that FHA have authority and be required to examine and audit such records to the extent deemed necessary to protect the Government's interests. If nothing else, our experience in examining the books and records of the Woodner interests definitely confirms beyond any question of doubt the grounds for our belief of the necessity that the Government have the right to peer behind the veil of secrecy that surrounded builder and mortgagor operations under FHA rental housing insured mortgages. Of all the provisions in the Housing Act of 1954 designed to strengthen the housing program, it is clear that none is more important than the provisions of section 814, which gives the Housing and Home Finance Administrator the authority to require insured mortgagors of rental housing projects to maintain books and records of their operations and a right for the FHA to audit them.

Mr. Chairman, in connection with the provision, it was your steadfastness in connection with this Housing Act which has made it possible for FHA to have this authority and they have a tremendous responsibility in connection with it. Mr. Chairman, Mr. Newman and Mr. Delmore, who have been engaged in this audit, will explain to you the audit report and answer any questions that you may have.

The CHAIRMAN. Suppose you proceed then and explain the report to us. We will ask you questions as we go along.

Mr. NEWMAN. Mr. Chairman, I have before me a letter signed by the Acting Comptroller General of the United States, Frank H. Weitzel, to you, dated September 30. This letter—

Mr. SIMON. Would you read the letter, Mr. Newman?

Mr. NEWMAN. Yes. [Reading:]

As requested in your letter of August 12, 1954, the Division of Audits, General Accounting Office, has been engaged in an examination of the financial books and records of Mr. Ian Woodner and of certain corporations which he owns or controls. These records are located in the Woodner Hotel pursuant to the committee's subpoena and under the joint custody of the committee and the owners.

In my letter dated August 17, 1954, it was indicated that the information requested by you would not be readily determinable because of the manner in which the records had been maintained. Since that date we have encountered numerous other conditions which have prevented the application of normal

auditing procedures. In fact, the existing conditions are of such a nature that unless rectified promptly a satisfactory audit cannot be made. The conditions hampering the progress of the examination are summarized from the attached report of preliminary findings.

1. The intermingling of transactions between the partnerships, the corporations, and the individuals, has made separate analyses of the entities impossible.
2. All the partnership and corporate books and records have not been presented to us for audit—

The CHAIRMAN. They have not been presented to you for audit?

Mr. NEWMAN. That is right, sir.

The CHAIRMAN. Isn't that a violation of the subpoena?

Mr. SIMON. Yes, sir.

The CHAIRMAN. You may proceed.

Mr. NEWMAN (reading):

Many significant transactions are not recorded in the books available to us, but are reflected in the financial statements prepared by the company's public accountants.

3. Detailed analyses in support of complex transactions apparently are in the possession of the company's public accountants in New York City. Analyses furnished us at our request in a few instances need further clarification.

4. Year-end closings of the books and allocations of costs and overhead expenses to various construction projects were made by the public accountants, acting as bookkeepers for the company.

5. Vendors' invoices, purchase orders, receiving reports, contracts, deeds, and other documents in support of many major transactions, have not been furnished upon our request.

6. Company representatives have not given reasonable explanations for unsupported transactions.

7. Detailed support for construction payrolls for periods prior to 1952, payable in cash, are reported to have been lost. These payrolls approximated \$3 million annually—

The CHAIRMAN. What is this, detailed support for construction payrolls for periods prior to 1952, payable in cash—you mean by checks or payable in checks, the master checks?

Mr. NEWMAN. One check was issued for the total payroll. The cash would come back to the company and the cash would be put in envelopes for each individual employee. There were no checks issued to each employee.

The CHAIRMAN. They can't furnish you with the names of the employees? Is that it?

Mr. NEWMAN. There is a subsidiary record, but not a book of original entry, which represents the individual earning cards.

Mr. SIMON. As I understand the point you are making, Mr. Newman, if the weekly payroll were \$180,000, and 18 employees were to get a total of \$180,000 for salary for that week, the payroll check might have been drawn for \$200,000, and the other \$20,000 might have been dissipated and there is no way that you can check as to what the payroll was in comparison to the amount of money they drew for payroll?

Mr. NEWMAN. That is right.

The CHAIRMAN. You may proceed.

Mr. NEWMAN (reading):

8. A number of the canceled checks payable to cash are missing.

9. Correspondence relating to many important transactions cannot be found by the company's representatives.

10. The dual custody of the books and records by the committee and the owners has caused considerable difficulty in performing the audit, due to the unnecessary close surveillance by the company representatives of our work, including

scanning of our work papers and obvious attempts to determine the subject of our official conversations, which were harassing if not deliberate interference to delay the progress of our work—

The CHAIRMAN. What is this? Read No. 10 again.  
 Mr. NEWMAN (reading) :

The dual custody of the books and records by the committee and the owners has caused considerable difficulty in performing the audit, due to the unnecessary close surveillance by the company representatives of our work, including scanning of our work papers and obvious attempts to determine the subject of our official conversations, which were harrassing if not deliberate interference to delay the progress of our work.

The CHAIRMAN. That is a pretty serious charge.  
 Mr. NEWMAN. It certainly is. [Reading:]

In view of the foregoing and in accordance with the conference held with members of your staff, the General Accounting Office will take no further action on the audit pending your further instructions.

Sincerely yours,

*Acting Comptroller General of the United States.*

B-121061  
 SEPTEMBER 30, 1954.

GENERAL ACCOUNTING OFFICE  
 DIVISION OF AUDITS

REPORT TO SENATE BANKING AND CURRENCY COMMITTEE OF PRELIMINARY FINDINGS  
 RESULTING FROM EXAMINATION OF THE FINANCIAL BOOKS AND RECORDS OF IAN  
 WOODNER AND CERTAIN CORPORATIONS WHICH HE OWNS OF CONTROLS

HISTORY OF COMPANY

Information available indicates the business began November 1, 1944, with the establishment of a partnership doing business as Jonathan Woodner Co. for the purpose of constructing and selling dwellings. The following persons appear in the records of the partnership as partners: Ian Woodner; Max Woodner, his brother; Beverly Woodner, his sister; Ruth Woodner, his wife; Beverly Macey, his niece.

We were unable to locate a partnership agreement for this original partnership and were informed by a Woodner representative that none existed. A memorandum in the company's files indicates that none was in existence and that instructions were given not to prepare any for the years 1944 through 1946.

Contributions to the partnership were not in the nature of actual cash advances, but rather consisted principally of allowances for various expenses incurred by the individuals. One of the principal items is a travel allowance of \$5,000 for Ian Woodner. Beverly Woodner's and Beverly Macey's original partnership interest consisted of transfer from Ian Woodner's account of \$2,000 and \$1,500, respectively. The partners' capital accounts as of December 31, 1944, are summarized as follows:

|                      |                 |
|----------------------|-----------------|
| Ian Woodner.....     | \$15, 493. 87   |
| Max Woodner.....     | -----           |
| Ruth Woodner.....    | 773. 40         |
| Beverly Woodner..... | 1, 940. 00      |
| Beverly Macey.....   | 1, 425. 00      |
| <br>Total .....      | <br>19, 632. 27 |

On or about January 1, 1947, the original partnership was dissolved and a new partnership, also doing business as Jonathan Woodner Co., was established. Ian and Max Woodner were partners in the new venture. An unsigned partnership agreement in the files indicates the respective interests were 70 percent for Ian and 30 percent for Max.

The second partnership was dissolved as of December 31, 1948, and the assets were transferred to a corporation named Shipley & 25th Street, Inc., in consideration of the assumption of all liabilities of the partnership by the transferee.

ShIPLEY & 25th Street, Inc., was incorporated October 25, 1944 (Delaware), and its corporate name was changed to Jonathan Woodner Co. on January 27, 1949. Its capital stock is owned by Shipley Corp.

Shipley Corp. (Maryland) was incorporated June 2, 1945, and is the holding company for numerous subsidiaries.

#### OPERATING PRACTICES

Generally, Shipley Corp. is the parent company of the Woodner interests. Jonathan Woodner Co. acts as the construction company. In a 608 project such as Rock Creek Plaza, Inc., Shipley Corp. would purchase a token amount of capital stock, such as \$1,000 to \$5,000. A construction mortgagee would provide money for the necessary deposits as well as for actual construction. This money would be sent from the construction mortgagee to the project corporation such as Rock Creek Plaza, Inc., which, in turn, would generally transfer the money immediately to Jonathan Woodner Co. The project corporation would carry this transfer as a receivable from Jonathan Woodner Co. under "Construction Advances." Jonathan Woodner Co. would then handle all the disbursements for construction and periodically would transfer these charges to the project company by journal entry.

#### COMMINGLING OF PERSONAL AND CORPORATE INTERESTS

From the inception of the Woodner companies in 1944, no clear-cut distinction was ever made consistently on the Woodner books between personal transactions and corporate transactions. The interests of the corporations have become so commingled with those of the individuals that a complete audit of the corporations necessitates a complete audit of the individuals.

Jonathan Woodner Co. periodically made substantial cash advances to its stockholders and officers. In 1950, advances to Ian Woodner totaled more than \$800,000. These advances were charged against the individuals' accounts. Credits to the individual accounts consisted not only of salary and expense allowances and cash, land, and other assets transferred to the company by the individual, but also numerous journal entries of substantial amounts, many of which are still unexplained. The important journal entries were prepared by Marshall Granger & Co., public accountants, for the preparation of the company's annual financial statements, but the entries do not appear on the books.

Mr. SIMON. Do you mean these year-end entries were made by the auditors in New York and never put on the books?

Mr. NEWMAN. The books we are examining do not have those entries on them.

Mr. SIMON. Those are the original books of the corporation?

Mr. NEWMAN. Yes, sir.

Mr. SIMON. These entries do not appear on those books?

Mr. NEWMAN. That is right. [Continues reading:]

An example is a journal entry credit of \$281,184 to Ian Woodner's advance account in 1951. An analysis of the charges to Rock Creek Plaza, Inc., disclosed that this credit consisted of a return by the construction mortgagee of the over and above deposit. The credit properly should have been made to the cost of construction of Rock Creek Plaza, Inc., since originally when the deposit was made it had been charged to that construction.

In this manner large credits were built up in his account, which enabled him to draw substantial cash advances, which he used for whatever purposes he desired, personal or otherwise. The propriety of these transactions is seriously questioned in view of Federal Housing Administration regulations and the Government's great interest in the Rock Creek and other 608 projects. From an acceptable accounting practice standpoint, these transactions need a thorough review by the Bureau of Internal Revenue to determine if additional income taxes are due the Government.

#### MISSING ACCOUNTING RECORDS

In our original survey of the Woodner books and records we attempted, as a starting point, to review trial balances of the Shipley Corp. books and the Jonathan Woodner Co. books by years. However, when it became apparent that

ending balances in one year would not agree with the beginning balances in the next year, company representatives told us that there were additional journal entries in the possession of Marshall Granger & Co., a New York firm of public accountants, which had never been posted to the books, and that all the detailed analyses supporting these entries were also in the possession of Granger. We requested that the company call Granger immediately and obtain copies of all journal entries since these are an integral part of the company's books. Despite repeated requests by us, the forwarding of this data has been extremely slow. It is apparent that delaying tactics are being used.

In substantially all cases the journal entries and supporting analyses are necessary to complete our examination since they contain the crux of the year's transactions. In some years as many as two hundred entries are not posted on the books. The ultimate disposition of substantial disbursements is tied up in these entries.

For example, payments totalling \$128,000 made to various unidentified individuals in 1950 were charged to a suspense account. No portion of the \$128,000 was carried forward to the 1951 ledger, yet nothing in 1950 showed the disposition of this amount. Information subsequently received from Marshall Granger & Co. showed that the \$128,000 had been distributed to various construction jobs. The purpose of these payments and the basis of distribution are unknown to us.

It is apparent that, in order to be complete, the books located in room B-1265 of the Woodner Hotel should be supplemented by Marshall Granger & Co. working papers, trial balances, and detailed analyses. Also required is correspondence from the Woodner interests concerning policies to be followed by Granger, and authorizing them to make certain allocations and determinations affecting the financial position of the company and the Woodners as individuals. For all practical purposes, Marshall Granger & Co. are the company's bookkeepers.

#### MISSING DOCUMENTS AND OTHER SUPPORTING EVIDENCE

In addition to the incomplete condition of the books, we cannot audit certain transactions because vendors' invoices, receiving reports, purchase orders, contracts, deeds, etc., are not available for our inspection.

We have been informed by company representatives that certain types of transactions have never had any supporting documents. We were unable to get reasonable explanations concerning the nature of the charges, most of which were accumulated either in a suspense account or in legal expense during the years 1949, 1950, and 1951, and totaled approximately \$250,000. Ultimately these charges were distributed to several accounts but principally to the construction costs of 608 projects.

Charges to construction, which were purported to be contractors' charges generally were supported by invoices. However, because no receiving reports were available we have no assurance that the material was ever delivered or that the distribution of the charge was proper. An example of this is a charge of \$6,885 to Rock Creek Plaza, Inc., for portraits and paintings. Although we have requested company representatives to tell us the location of these paintings, they have not done so.

As indicated in foregoing paragraphs, construction costs, including the construction payroll, were paid by the Jonathan Woodner Co. We have been informed by the company that the payroll journals for the construction workers have been lost for the years prior to 1952. Since these payrolls were paid in cash, there is no detail available for our inspection. We were unable, therefore, to audit the charges to construction from payroll. These charges, applicable to a number of construction jobs, approximated \$3 million per year. The total construction payroll charges to Rock Creek Plaza, Inc., approximated \$2 million for the years 1949 to 1953.

Our analysis of construction costs to date showed that many charges were made for checks payable to cash. A number of these canceled checks are not in the files and company representatives have been unable to explain their absence.

In attempting to get the background of certain transactions we have gone to the correspondence file for information. In many cases no reference was found to the transactions in question.

The CHAIRMAN. Outside of that, everything is all right.

Mr. SIMON. Mr. Newman, have you prepared or had prepared by your staff a list of the checks drawn to cash for which there—

The CHAIRMAN. Excuse me. Is Elder Michaux present?

Will you have him come in from out in the hall, please?

Elder, will you come forward? Do you have the books that you were to deliver to us today?

Mr. MICHAUX. No, sir. This gentleman has them.

The CHAIRMAN. In other words you have delivered the books to us?

Mr. MICHAUX. Yes.

Mr. SIMON. Senator, he has delivered the books. His auditor is now with our auditor going over them.

The CHAIRMAN. We will publicly accept delivery of the books at this time.

Mr. MICHAUX. Thank you, sir.

The CHAIRMAN. Now you may proceed, Mr. Counsel.

Mr. SIMON. Mr. Newman, have you prepared a tabulation of the checks payable to cash for which there is no supporting data?

Mr. NEWMAN. Our staff has, yes, sir.

Mr. SIMON. And do they total \$127,000?

Mr. NEWMAN. That is right, sir.

Mr. SIMON. Pages 1 and 2 list checks totaling \$90,210.22, which were payable to cash where the checks are available, but there is no supporting data.

Mr. NEWMAN. That is right, sir.

Mr. SIMON. And the third sheet of paper lists checks totaling \$37,286, where there is no supporting data and the checks, themselves, are not available; is that right?

Mr. NEWMAN. I would like to make a correction at this point. I think it is very pertinent. We found out about 2 hours ago that the checks listed on the statement, the last statement you just mentioned, which total \$37,286, that were made to cash in the years 1947-49, they were submitted to our auditors this morning.

Mr. SIMON. Where had they been? Do you know?

Mr. NEWMAN. I understand from our staff members that the company representative stated to them that the checks had been in the files of Marshall Granger & Co. in New York.

Mr. SIMON. Do you know why those particular checks, all of which are payable to cash, and with 2 exceptions, all of them are in round numbers, like a thousand dollars, or \$3,000, or \$5,000, should have been in the files of Marshall Granger?

Mr. NEWMAN. We do not know why.

The CHAIRMAN. Do you mean they delivered to you this morning these checks?

Mr. NEWMAN. The checks——

Mr. SIMON. They delivered to his staff this morning these checks payable to cash, all but two of which are in round numbers, for which there are no explanations and until this morning the checks were missing.

Mr. NEWMAN. That is right.

Mr. SIMON. They delivered them this morning and said they had found them in the files of Marshall Granger & Co. in New York.

The CHAIRMAN. You mean just these specific checks?

Mr. NEWMAN. That is right, sir. There are still checks 2, 4, 5, to the tune of about \$16,000 that were issued in 1951, for substantial amounts.

For example, 1 for \$5,000; 2 for \$5,000; 1 for \$3,000; another one for \$2,500, another one for \$1,000.

The CHAIRMAN. Was the balance of the checks in the office out here? I mean other checks—the regular checks?

Mr. NEWMAN. The regular checks were there; yes, sir.

The CHAIRMAN. In the office here in Washington?

Mr. NEWMAN. That is right.

The CHAIRMAN. These particular checks we called their attention to, day before yesterday I believe it was, or Monday, were missing and they delivered to you or a member of your staff this morning and said that they had been in Mr. Granger's offices in New York?

Mr. NEWMAN. That is right, sir.

The CHAIRMAN. These are all checks made out to cash?

Mr. NEWMAN. That is right, sir.

Mr. SIMON. Now, Mr. Newman—

Mr. NEWMAN. It is significant, I believe, at this point to state, gentlemen, that in the course of our audit, when we come across a check that cannot be found, we immediately called it to the attention of the company representative. That is as long as 30 days ago, a conservative estimate of that. Finally, when we finished the account we gave a list which you have before you.

Mr. SIMON. Mr. Newman, taking the last 4 items on page 3 of this checks to cash, they totaled \$14,000. Two of them were for \$5,000, 1 for \$3,000 and 1 for \$1,000; is that right?

Mr. NEWMAN. You have missed one. There is one for \$2,500.

Mr. SIMON. I said the last four.

Mr. NEWMAN. The last four.

Mr. SIMON. The last four were charged to suspense; is that right?

Mr. NEWMAN. That is right, sir.

Mr. SIMON. As an auditor, what do you mean when you charge something to suspense?

Mr. NEWMAN. Ordinarily it would be the practice to charge an item to suspense, primarily because the final determination hadn't been made to the distribution of that item on the books of original entry.

Mr. SIMON. Do I understand correctly in the spring or summer of 1951, they drew 4 checks to cash in round figures which totaled \$14,000? The checks were cashed, they charged it to suspense, and today, 3 years later, they are still charged to suspense?

Mr. NEWMAN. What happens is this: they are charged to suspense and then at the end of the year a preclosing trial balance, which includes the total of that suspense, goes to Marshall Granger. Somewhere there must be an analysis, because Marshall Granger would have to make a final determination as to where these items should be charged. As we have indicated, this suspense account, it occurs on the preclosing of the books—in other words, the books of original entry would have maybe a balance of a hundred thousand. At the beginning of the next year the suspense account disappears. The amount is taken and thrown against all projects.

Mr. SIMON. Is what you are saying, at the end of the year they wipe out the expense account but without ever identifying it or charging it to any particular account or item?

Mr. NEWMAN. Frankly, we do not know whether there is anything identified or not.

Mr. SIMON. Those items which were charged to suspense in 1951 are still not identified on the books of the company; is that right?

Mr. NEWMAN. If you include what Marshall Granger has as books of the company, which we do, and we haven't been able to get, yes.

Mr. SIMON. So far as the books you have been able to get is concerned, those are still unidentified?

Mr. NEWMAN. That is correct.

Mr. SIMON. Do I understand that in the year 1950 the company charged to overhead, \$808,000, and in that \$808,000 there was included \$128,000 of items that had previously been charged to suspense?

Mr. GRANGER. That is right.

Mr. SIMON. And was there included in the \$808,000, \$73,000 charged to promotion?

Mr. NEWMAN. That is right.

Mr. SIMON. Mr. Newman, what would you understand promotion to be when you are building Government-insured housing projects?

Mr. NEWMAN. Well, we certainly question it very seriously. We did run across something that appears definitely to be a payment made to somebody to expedite getting an occupancy permit.

Mr. SIMON. Did you find—those were small amounts?

Mr. NEWMAN. Yes.

Mr. SIMON. A couple of hundred dollars?

Mr. NEWMAN. But it was a common practice. They used the word for that purpose, of paying off somebody.

Mr. SIMON. They drew a hundred dollars or two hundred and the charge on the books was to expedite getting the occupancy permit?

Mr. NEWMAN. That is right, sir.

Mr. SIMON. Going back to your first sheet of checks made payable to cash, I notice a check dated November 8, 1949, check No. 9588. Do you find that check?

Mr. NEWMAN. I found it.

Mr. SIMON. Payable to cash, on the Riggs Bank; is that right?

Mr. NEWMAN. That is right, sir.

Mr. SIMON. There is no endorsement on the back of the check.

Mr. NEWMAN. That is right, sir.

Mr. SIMON. The check is for a round sum of \$2,000.

Mr. NEWMAN. That is right.

Mr. SIMON. And it is charged to promotion?

Mr. NEWMAN. That is right, sir.

Mr. SIMON. Is there any supporting data to show what they meant by promotion?

Mr. NEWMAN. No, sir.

Mr. SIMON. Is there anything to indicate whether that was to erect a billboard or to pay off somebody?

Mr. NEWMAN. There was no evidence. We have no documentary evidence to give us any indication, who it was paid to, or for what purpose.

Mr. SIMON. I notice on the second page, there are a number of checks drawn to cash and you list the people whose names appeared on the back. To the extent you have been able to identify them are they employees of the company?

Mr. NEWMAN. Yes, sir. Most of them were employees.

Mr. SIMON. Would that indicate that the employee had gone to the bank and cashed the check and brought the cash back?

Mr. NEWMAN. It indicates that, yes.

Mr. SIMON. And of all these checks on three pages totaling \$137,000, there is no indication of what the money was spent for?

Mr. NEWMAN. That is right, sir.

Mr. SIMON. Going to your group of papers, your schedule A lists checks totaling \$285,000 drawn to named persons for which the supporting data is missing; is that right?

Mr. NEWMAN. That is correct.

Mr. SIMON. And without bothering to read them all, because we want to ask Mr. Woodner about each of them specifically, the first one is \$30,000 to D. Worth Clark?

Mr. NEWMAN. That is correct.

Mr. SIMON. The second one is \$44,791 to Maurice T. O'Connell?

Mr. NEWMAN. That is correct.

Mr. SIMON. The third is \$45,796 to Arthur M. Chaite.

Mr. NEWMAN. That is correct.

Mr. SIMON. For those that I have named plus the others, the total of \$285,000, were you able to find the supporting data?

Mr. NEWMAN. All the supporting data is missing, and until the other evening, when Ian Woodner testified, we had no knowledge what these payments were for.

The CHAIRMAN. That was in executive session on Monday evening?

Mr. NEWMAN. That was in executive session.

Mr. SIMON. The only knowledge you have as of today is what you heard him orally say Monday night in the Capitol in our office?

Mr. NEWMAN. That is correct.

Mr. SIMON. And I gather that a goodly number of them, now that you know what they are for, would you have to conclude are not proper charges to the corporation?

Mr. NEWMAN. We do not know at the moment whether they are or are not.

I would say this: that this total of \$285,000 is as you see, the suspense account is over 1949, 1950, and 1951. Then there are certain legal expenses in 1950 and then it goes to military housing proposals. All these charges are put in a pot. I suppose you could call it a pot of gold, and then they are prorated or charged against the various projects. At the time some of these allocations were made the Rock Creek Plaza bore almost 50 percent.

Mr. SIMON. Rock Creek Plaza is the Woodner Hotel out here?

Mr. NEWMAN. That is right, sir.

Mr. SIMON. I hold in my hand two checks of the Jonathan Woodner Co. to the order of Maximilian Furs, Inc., in 1950. One is for \$3,000 and one is for \$3,200 and endorsed by Maximilian Furs, Inc. Are you acquainted with those two checks?

Mr. DELMORE. I am.

Mr. SIMON. Were those checks charged against the construction of any of these buildings?

Mr. DELMORE. They were charged against Ian Woodner's advance account.

Mr. SIMON. Do you know whether from the advance account they were charged back to any of the buildings?

Mr. DELMORE. We cannot determine that.

Mr. SIMON. There are many offsetting entries against the advance account and you cannot tell whether this item is in any of those?

Mr. DELMORE. Which items are being taken out.

Mr. SIMON. Going back to your schedule A, after listing the people who got the money, you then have a separate sheet showing the detailed—showing each specific check for each individual; is that right?

Mr. NEWMAN. That is right, sir.

Mr. SIMON. Schedule B, you list the charges against the Ian Woodner personal account; is that right?

Mr. DELMORE. Yes.

Mr. SIMON. Does that show that in the period from 1944 to 1952 his total salary from all these corporations was \$59,946?

Mr. DELMORE. As much as we were able to determine those are the credits to that account, which apparently came from salary allowance.

Mr. SIMON. And what are the credits to his account from partnership profit or loss?

Mr. DELMORE. For that span of years it amounted to a net loss of \$37,653.

Mr. SIMON. Then would you say that the books reflect that for the 6-year period, the net amount of salary or partnership profit or loss he had was \$22,000?

Mr. DELMORE. Yes.

Mr. SIMON. As against that, do the books show that \$70,742 of checks payable to cash were charged against his account?

Mr. DELMORE. That is right.

Mr. SIMON. That the corporation paid \$40,412 of his personal income tax?

Mr. DELMORE. Yes.

Mr. SIMON. That the corporation paid \$342,716 of his personal bills?

Mr. DELMORE. That is right.

Mr. SIMON. And then you have journal entries, passing credits back and forth, of over \$2 million.

Mr. DELMORE. That is right.

Mr. SIMON. The supporting sheets following that list the checks supporting each of the items; is that right?

Mr. DELMORE. Yes.

Mr. SIMON. Lastly, you have a detail of journal entries. Are these the yearend journal entries that you referred to earlier?

Mr. DELMORE. Yes.

Mr. SIMON. Without bothering to go through all of them I would like to refer to a few of them. On page 1, "JE-22." I gather that means journal entry 22?

Mr. DELMORE. That is right.

Mr. SIMON. Which was made May 30, 1948—it credits Woodner's drawings with \$15,629 and says that "The purpose is to charge travel and promotion of \$10,000 to the company." Is there any indication in the files of what that \$10,600 of travel and promotion consisted of?

Mr. DELMORE. We have not been able to find it.

Mr. SIMON. As I understand it—will you turn to page 5 there, please?

Page 5 of these journal entries.

The journal entries are on a narrow sheet of paper. The first item there credits Woodner's account with \$20,363; is that right?

Mr. DELMORE. Yes.

Mr. SIMON. It says the purpose of it is to reflect some securities that he had purchased and the securities are General Motors stock, Stand-

ard Oil of Ohio, Bethlehem and United Gas, some Treasury bonds. Do the books reflect the fact that those securities were purchased from Carreau & Co., with funds put in his wife's bank account, which were taken out of the corporation and deposited in his wife's bank account?

Mr. DELMORE. I cannot recall this entire transaction. I have gone back on it and I think this journal entry picked it up sometime later after the transaction had been completed. The securities had been purchased and sold and then ultimately it was picked up on the books.

Mr. SIMON. Going to page 7, do I understand beginning at page 7 all of these journal entries were given to you from the records of Marshal Granger and do not appear on the books of the company?

Mr. DELMORE. That is right.

Mr. SIMON. To this day they are not on the books of the company, is that right?

Mr. DELMORE. That is right.

Mr. SIMON. You received them only from their auditors in New York?

Mr. DELMORE. That is right.

Mr. SIMON. The first item gives Woodner's advance account a credit of \$10,000 and below that, its purpose is stated, "To adjust expense details."

Mr. DELMORE. Details in the working papers.

Mr. SIMON. Do you know what the purpose of that \$10,000 credit was?

Mr. DELMORE. No, sir. We do not have those work papers.

Mr. SIMON. You have no indication of what that \$10,000 credit was for?

Mr. DELMORE. That is right.

Mr. SIMON. The next item gives Woodner a credit of \$27,414. Does anything in the files indicate what that credit is for?

Mr. DELMORE. No, sir.

Mr. SIMON. The next item, credit suspense, with \$77,000, and charges a number of other people, including Chaite, with \$5,000. Is there anything in the files to indicate why the reclassification of the suspense account?

Mr. DELMORE. No, sir. That is the distribution of it. The basis of the allocation is the thing that we do not have.

Mr. SIMON. No supporting data on why it was allocated as it was?

Mr. DELMORE. No, sir.

Mr. SIMON. On the next page you show a credit to Woodner of \$281,184 by a journal entry. Is that right?

Mr. DELMORE. Yes, sir.

Mr. SIMON. Does that mean that on the books of the company he was given a credit in that amount?

Mr. DELMORE. That is right.

Mr. SIMON. Is that the amount of the return of the over and above money on the Woodner Hotel?

Mr. DELMORE. Yes, sir.

Mr. SIMON. Who put up the over and above money on the Woodner Hotel?

Mr. DELMORE. The corporation.

Mr. SIMON. What reason was there for crediting him with the return of that money?

Mr. DELMORE. I don't know. We haven't been given any explanation for that particular entry.

Mr. SIMON. Is what happened here that the corporation put up \$281,000 and when it was returned, he personally got credit for it?

Mr. DELMORE. Yes.

Mr. SIMON. On the next page, there is a journal entry giving him credit for \$117,000 on advances in connection with Swifton Village No. 3. Is that a return of the over-and-above money for Swifton Village No. 3?

Mr. DELMORE. I don't know what that particular deposit is. It is a deposit of some type.

Mr. SIMON. It is a return of deposit?

Mr. DELMORE. Yes.

Mr. SIMON. He put up the deposit?

Mr. DELMORE. We haven't followed through on that transaction. They are giving him credit as if he did put up the money.

Mr. SIMON. That was made as of December 31, 1951?

Mr. DELMORE. No; this is 1952.

Mr. SIMON. I am sorry, December 31, 1952.

On the last page, page 11, do you find a journal entry made December 31, 1951, which gives him credit for \$117,000?

Mr. DELMORE. Yes.

Mr. SIMON. Is that a duplication of the same item?

Mr. DELMORE. It would appear to be.

Mr. SIMON. Which means he got credit for the \$117,000 twice, although the corporation only got it once?

Mr. DELMORE. I would say if he actually put up the money, he got credit twice and he put up the money once.

Mr. SIMON. Does the effect of giving Mr. Woodner credit for these two items alone, which total about \$400,000 mean that he was able to take that amount of money out of the corporation, without reporting it as a taxable income?

Mr. DELMORE. That would be the effect; yes.

Mr. SIMON. The effect would be to reduce his tax liability so far as these books are concerned by income on \$400,000?

Mr. DELMORE. That is right.

The CHAIRMAN. I think the record ought to show at this time that the Woodner companies are the only companies where we have audited their books, or tried to audit their books, of all the witnesses in the mortgaging-out cases we have had. In this instance we asked the General Accounting Office to make an audit. They did make an audit and we are hearing today the result of that audit.

We have had, as you know, several dozen witnesses here on section 608 projects but in none of them did we ask for an audit, primarily because we do not have the help to do it and we do not have the time to do it.

I think, in all fairness to Woodner, that we ought to say that we have not made any audits of other concerns. Whether we would find similar situations, I don't know.

The fact remains we have made no audit, which proves, of course, the necessity for FHA to have the right to make the audits. Of course, I think they always had the right to make the audits because they owned all of the preferred stock, which I think gave them the right to do it. I think the charters gave them the right to do it. They

didn't do it. In this last housing bill we wrote into the law that they specifically had the right to do it.

I think they always had the right to do it but they didn't take advantage of that situation, in my opinion. Here is a case now where we did ask the General Accounting Office to make an audit.

They spent—10 men spent many, many days, and it may well be, before we are through with this investigation, which may well have to run all of next year, that we will ask the General Accounting Office to make a similar audit of many, many other of these projects, particularly these projects where we have had them before us as witnesses during the last 3 or 4 months.

Mr. NEWMAN. Mr. Chairman, if I may, I would like to make a statement that these are only preliminary findings.

The CHAIRMAN. I understand.

Mr. NEWMAN. With records in such condition as these, it is a waste of Government funds to go any further on this project unless they cooperate and give us all the information.

The CHAIRMAN. We appreciate that. I just wanted the record to show that this is the only project, or only company where we have made an effort to audit their books, to find out the facts from their books. All the other information we have had in all of our hearings, which have been going on now for several weeks, it is the information which they bring in and give us and what little information FHA had.

In no instance, other than this one, did we try to make a detailed audit.

You may proceed, Mr. Counsel.

Mr. SIMON. I have no further questions.

The CHAIRMAN. Our next witness will be Mr. Woodner. If you gentlemen will just sit in the back, we may want some further information.

Mr. Woodner, will you please come forward?

Mr. Granger, likewise, the auditor for Mr. Woodner, please come forward.

The CHAIRMAN. Will you be sworn, Mr. Woodner? And Mr. Granger, will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF IAN WOODNER, THE WOODNER, WASHINGTON, D. C., ETC., ACCOMPANIED BY MARSHALL GRANGER, ACCOUNTANT, AND WILLIAM E. LEAHY AND JOSEPH M. WILLIAMSON, COUNSEL—Resumed**

Mr. WOODNER. Yes, sir.

Mr. GRANGER. Yes, sir.

The CHAIRMAN. The two gentlemen with you are your attorneys?

Mr. LEAHY. Yes, sir.

Mr. WILLIAMSON. Yes, sir.

The CHAIRMAN. Is it the wishes of the witnesses that the photographers take the pictures and then move to one side? Is that correct, Mr. Woodner and Mr. Granger?

Mr. WOODNER. Yes.

Mr. GRANGER. Yes, sir.

The CHAIRMAN. The photographers will please get a picture and then move to the right.

Now, Mr. Woodner, will you give your name to the reporter, please, for the record?

Mr. WOODNER. My name is Ian Woodner.

The CHAIRMAN. And Mr. Granger?

Mr. GRANGER. Marshall Granger.

The CHAIRMAN. What company?

Mr. GRANGER. Marshall Granger & Co.

The CHAIRMAN. Of New York City?

Mr. GRANGER. Yes.

The CHAIRMAN. The gentlemen with you—

Mr. WILLIAMSON. Joseph N. Williamson.

Mr. LEAHY. William E. Leahy.

The CHAIRMAN. Representing them as lawyers.

You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Woodner, when you were here sometime ago, we went through the details of the mortgages and the costs on the 24 projects that you built under section 608 of the Housing Act. Do you recall that?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Without going into the details, the total mortgages were roughly \$403¼ million, and the total costs of the buildings and the land were somewhere around \$600,000 less than the amount of the mortgages.

Mr. WOODNER. If that is what the record shows.

Mr. SIMON. I think you will find that is what the record shows. And those costs that we use were the costs that you gave us as shown by your books; is that right?

Mr. WOODNER. These costs were the costs that are indicated to me as being the costs of these projects, but they do not include—may I add something to that, sir?

Mr. SIMON. They are the costs that you gave us as shown by your books; is that right?

Mr. WOODNER. Costs as presented to us. May I add something to it, please, and then I will be through?

Mr. SIMON. Yes.

Mr. WOODNER. The costs do not include one project built under the FHA rental-housing program known as Chanute Gardens, Chanute Apartments Corp., under title VIII.

Mr. SIMON. That was not a section 608; was it?

Mr. WOODNER. No; it was not.

Mr. SIMON. We will get to that. We are talking about section 608's now; is that right?

Mr. WOODNER. I—

Mr. SIMON. I know you didn't mortgage out there, but the point I was trying to get at, on the section 608's—24 of them—the total costs as shown by your books was \$600,000 less than the total mortgages; is that right?

Mr. WOODNER. Approximately, with the exception of the fact that we lost over a million dollars on the title VIII project.

Mr. SIMON. I don't agree you lost anything on it, but am I correct in stating the fact, that on the section 608 projects you got \$403¼ million, and the total costs were about \$600,000 less than the mortgages?

Mr. WOODNER. Not counting any of the builder's fees, or architect's fees, or work which we did as contractors and subcontractors of our own.

Mr. SIMON. Mr. Woodner, is it true that every cost that you paid to every living soul whom you ever paid a penny or more to, totaled approximately \$600,000 less than the mortgages?

Mr. WOODNER. Those are the figures that were presented to me.

Mr. SIMON. Yes; and those figures included costs which we are about to discuss—included costs shown on your books; is that right?

Mr. WOODNER. As presented to me.

Mr. SIMON. Among the cost shown on your books is an item of \$30,000 paid to D. Worth Clark. Did you pay D. Worth Clark \$30,000?

Mr. WOODNER. If the records show that.

Mr. SIMON. Did you?

Mr. WOODNER. If the records show that.

Mr. SIMON. My question is whether you did pay D. Worth Clark \$30,000.

Mr. WOODNER. If the records show we paid him that much money we did pay him that much money.

Mr. SIMON. Do you know whether you paid Mr. Clark \$30,000?

Mr. WOODNER. I don't know whether it was \$30,000 or \$20,000.

The CHAIRMAN. Did you pay him anything?

Mr. WOODNER. Yes; I know we paid him something.

The CHAIRMAN. You paid him something?

Mr. WOODNER. Yes, sir.

Mr. SIMON. What is your best recollection as to how much you paid him?

Mr. WOODNER. I don't know. I believe it is around \$27,000 or so. I am not certain. It is in that neighborhood; yes, sir.

Mr. SIMON. What did Mr. D. Worth Clark do for \$27,000 or \$30,000?

Mr. WOODNER. He was an attorney for us.

Mr. SIMON. What work did he do as an attorney?

Mr. WOODNER. He went with us. He interested us in a project to be done in the State of Idaho in connection with, or near the Arco atomic energy plant, which had been in operation there, and we went and surveyed areas, more specifically in Pocatello and Boise, Idaho.

Mr. SIMON. When was that project built?

Mr. WOODNER. That project was never built.

Mr. SIMON. How far did you go in the construction of it or in the planning for it?

Mr. WOODNER. We began to take options in the fall of 1949. We were issued a commitment in the middle of 1951.

Mr. SIMON. A commitment from FHA?

Mr. WOODNER. From FHA.

The CHAIRMAN. Why didn't you build it?

Mr. WOODNER. Because, first of all, we decided it was too far away and secondly, the commitment was not satisfactory in relation to cost.

Mr. SIMON. What else did Mr. Clark do for that \$30,000 the books show he got?

Mr. WOODNER. He represented us in the State of Idaho for that period of time.

Mr. SIMON. And that is all that is covered by this \$30,000?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Did he do any work in connection with the Woodner Hotel or the Woodner Apartment House here?

Mr. WOODNER. Nothing, sir.

Mr. SIMON. Then why was this \$30,000 charged as a cost of construction of the Woodner project?

Mr. WOODNER. I don't believe it was, sir.

Mr. SIMON. You don't believe it was?

Mr. WOODNER. To my knowledge I don't believe it was, sir.

Mr. SIMON. Where was it charged?

Mr. WOODNER. It was probably charged to the Jonathan Woodner Co.

Mr. SIMON. Do you know who it was charged to?

Mr. WOODNER. No, exactly, no, I do not know.

The CHAIRMAN. How do you know it was not charged to it?

Mr. WOODNER. I say I do not know. I don't expect it to be so.

Mr. SIMON. In any event, we can expect it to be charged to the Woodner project here?

Mr. WOODNER. Not the \$30,000. There is a question as to how a charge should be made to a company who engages in efforts, through a project, when the project does not become a reality. There is a cost. It is paid to somebody. There should be some allocation of that cost in the total of the company's efforts.

Mr. SIMON. D. Worth Clark is a former Senator from Idaho; is he not?

Mr. WOODNER. I believe so.

Mr. SIMON. Do you know who Gloria Leduine is?

Mr. WOODNER. No, sir.

Mr. SIMON. One of the checks to Mr. Clark I have here in the amount of \$6,500 was endorsed to Gloria Leduine, trustee. Do you know who that person is?

Mr. WOODNER. I do not know, sir.

Mr. SIMON. As a matter of fact, two of them. The other is \$3,450. They total \$9,950. It went to Gloria Leduine, trustee.

Mr. WOODNER. I don't know her, sir. I have never heard of her, sir.

Mr. SIMON. You don't know why he would have turned over that \$9,900 to that person?

Mr. WOODNER. No, sir.

The CHAIRMAN. Could it have been \$9,000 some dollars you gave him to pay out an option on land?

Mr. WOODNER. I don't know, sir.

The CHAIRMAN. You just don't know?

Mr. SIMON. The next item here is Maurice T. O'Connell, who got \$44,791. Who is Mr. O'Connell?

Mr. WOODNER. Mr. O'Connell is a detective.

Mr. SIMON. What did Mr. O'Connell do for \$44,000?

Mr. WOODNER. He was engaged for a period of quite some time, 18 months, 2 years or so. I am not certain of the time which, when we were involved in a lawsuit by my former wife.

Mr. SIMON. You mean marital litigation?

Mr. WOODNER. It originated with that, and in the early stages of that, our corporation was sued, and its various assets were under, well, all the corporations in which she had had an interest and which she had assigned were then being litigated as to her rights.

Mr. SIMON. You and your wife had some marital litigation?

Mr. WOODNER. Yes. She also had been a stockholder in all the corporations, and like in the District of Columbia, the land rights which I had and in the process of that we had to defend that suit.

Mr. SIMON. Mr. O'Connell was hired to check on your wife?

Mr. WOODNER. He was—the purpose was to defend the suit in the best manner we could, and——

Mr. SIMON. What did Mr. O'Connell do? What did he do, he personally?

Mr. WOODNER. He did the functions of a detective, I would say.

Mr. SIMON. What did he do as a detective?

Mr. WOODNER. I wasn't there with him.

Mr. SIMON. What did you think he did when you paid him \$44,000? Was that for anything other than trailing your wife?

Mr. WOODNER. He got such information as necessary for us to defend our suit.

The CHAIRMAN. I think that is sufficient.

Mr. SIMON. Who is Timmann, or Heintz and Timmann?

Mr. WOODNER. Heintz and Timmann? That name is not familiar to me.

Mr. SIMON. A goodly number of the checks to O'Connell were endorsed to Heintz and Timmann.

Mr. WOODNER. That means nothing to me, sir.

Mr. SIMON. It means nothing to you?

Who is George Morton?

Mr. WOODNER. George Morton was one of his associates.

Mr. SIMON. You paid George Morton \$17,709.

What was that for?

Mr. WOODNER. As I was about to comment, further, on Mr. O'Connell, was that we had had jobs in various parts of the country, we required—there had been considerable stealing and theft going on, especially during the war years, and we used them in addition to cut down the thefts. It may be one of the explanations why many of our projects did not make money.

Mr. SIMON. You are talking about O'Connell now?

Mr. WOODNER. O'Connell was the head man. He had a couple of assistants underneath him who worked with him.

Mr. SIMON. Was one Morton?

Mr. WOODNER. One was Morton.

Mr. SIMON. Was another Sand?

Mr. WOODNER. Sand was the other.

Mr. SIMON. Sand got \$19,000?

Mr. WOODNER. Yes, sir.

Mr. SIMON. \$290.

The three of them got \$80,000. Was that all for defending the lawsuit of your wife?

Mr. WOODNER. No. It was part—part of it was for the surveillance with reference to our projects in which there was thefts going on.

Mr. SIMON. How much was surveillance of the properties and how much of it was for your wife's lawsuit?

Mr. WOODNER. I cannot determine that, sir.

Mr. SIMON. Maybe I can help you. O'Connell was paid \$26,000 in 1950.

That is the year your litigation with your wife was going on, wasn't it? Wasn't it 1950 and 1951 that you had this litigation with your wife?

Mr. WOODNER. From 1949, 1950, and 1951.

Mr. SIMON. O'Connell got his full \$44,000 in 1950 and 1951?

Mr. WOODNER. Yes. That is when the company was being sued for the return of its shares and assets.

Mr. SIMON. And Morton got his—got \$9,200 in 1950, and \$8,200 in 1951. Is that for the same purpose?

Mr. WOODNER. They worked together, I believe.

Mr. SIMON. And Sand got \$7,700 in 1950, and \$11,500 in 1951.

Mr. WOODNER. If that is what the records show.

Mr. SIMON. The total was \$80,000 in the 2 years to the 3 of them. Wasn't that service all in connection with your wife's divorce suit?

Mr. WOODNER. No, sir.

Mr. SIMON. Were they doing both jobs at the same time?

Mr. WOODNER. No. It started—they cannot do both jobs at the same time in a period of 2 years. It started originally as I have explained to you.

Mr. SIMON. It started what?

Mr. WOODNER. Originally as I explained to you, at the initiation of our marital difficulties.

Mr. SIMON. I am talking now about 1950 and 1951 because in those 2 years alone you paid them \$80,000.

Mr. WOODNER. Those happen to have been the 2 years in which we were doing our greatest amount of construction, approximately \$25 million worth of work.

Mr. SIMON. Did they render you invoices?

Mr. WOODNER. I don't believe so.

Mr. SIMON. They never rendered you invoices?

Mr. WOODNER. I don't think so.

Mr. SIMON. How would you know how to pay them?

Mr. WOODNER. It was somewhat on a weekly or amount of work he was doing.

Mr. SIMON. Well, now, what about the Shinder Bureau of Investigation?

Mr. WOODNER. Yes.

Mr. SIMON. What were they hired for?

Mr. WOODNER. Part of the same type of thing.

Mr. SIMON. In connection with your wife?

Mr. WOODNER. Yes, sir.

Mr. SIMON. How much were they paid?

Mr. WOODNER. I don't know, sir.

Mr. SIMON. You don't know?

Mr. WOODNER. No, sir.

Mr. SIMON. \$50,000?

Mr. WOODNER. I don't believe so.

Mr. SIMON. \$25,000?

Mr. WOODNER. I don't know, sir.

Mr. SIMON. You don't know? They were paid \$7,000 that was charged to the Rock Creek Plaza job, and many other thousands of dollars charged to you personally, is that right?

Mr. WOODNER. I do not know, sir. I don't know what the records shows, sir.

Mr. SIMON. How is that?

Mr. WOODNER. I don't know what the record shows.

Mr. SIMON. The record shows, Mr. Woodner, that \$87 of detective fees in 1950 and 1951 was charged to the construction costs on the Woodner Hotel or the Woodner Apartment House.

Mr. WOODNER. I don't know whether they have been or not, sir.

Mr. SIMON. You don't know?

Mr. WOODNER. No, sir.

Mr. SIMON. You would agree that is not a proper item of cost?

Mr. WOODNER. It would be more of a proper item of charge to the company itself which had many projects and different types of assets to defend.

Mr. SIMON. Do you consider that the costs of defending your wife's divorce suit was a proper cost of construction to the projects?

Mr. WOODNER. It is a difficult question to answer, because you get involved there, with the basic company who was doing many things and it has, like any company has, overhead costs of one kind or another, legal, secretarial, or whatever it might be. Someplace along the line somebody has to determine, and generally, it is determined, how to allocate general costs into the various parts of its total operation.

Mr. SIMON. Now Arthur M. Chaite—how much money did you pay him during this period of time?

Mr. WOODNER. Which period of time, sir?

Mr. SIMON. From the time he got out of FHA until today. How much money did you pay Mr. Chaite?

Mr. WOODNER. Whatever the records will show, sir.

Mr. SIMON. Do you know how much you paid him?

Mr. WOODNER. No, sir.

Mr. SIMON. You don't?

Mr. WOODNER. No, sir.

Mr. SIMON. Did you pay him \$15,000 in 1946?

Mr. WOODNER. I don't believe there was a payment to him. I think it was more in the term of an advance or a loan. It was in connection with a purchase of a woodworking plant which he was contemplating buying with others at that time.

Mr. SIMON. Did he actually get that \$15,000?

Mr. WOODNER. Yes.

Mr. SIMON. Did he get another \$5,000 in connection with that woodworking plant?

Mr. WOODNER. I am not certain, sir. Whatever my records will show.

Mr. SIMON. Did he actually cash that \$15,000 check?

Mr. WOODNER. I believe so. I am not certain, but I believe so.

Mr. SIMON. He denies that he cashed the \$15,000 check.

Mr. WOODNER. I am not certain. I do know there was, I believe, a payment—

The CHAIRMAN. He testified he gave it back to you without cashing it.

Mr. WOODNER. First of all, this is—first of all, this is in 1947. I know the project—1946, rather—I know that there was a mixup among ourselves according to our understanding as to my rights or interest in the thing, and there was, I believe we did get most of the money

back, if our records show it, sir. I am not certain of the exact figures on that.

Mr. SIMON. On August 31, 1946, you gave him a check on the Seat Pleasant Bank for \$15,000?

Mr. WOODNER. Yes, sir.

Mr. SIMON. The check shows loan on Taggerts Valley Wood Products agreement, is that right?

Mr. WOODNER. If that is what the check shows.

Mr. SIMON. Did you ever get that money back?

Mr. WOODNER. I don't remember, sir. I believe that the records will show some sort of—

Mr. SIMON. Did Mr. Chaite ever represent you as a lawyer?

Mr. WOODNER. I have just been speaking to Mr. Williamson here, who is a little more familiar with this, that we got most of it back and a note for the balance.

Mr. SIMON. Did Mr. Chaite ever represent you as a lawyer?

Mr. WOODNER. I would hardly say as a lawyer. He aided in one situation when we were negotiating a loan with the Air Force.

Mr. SIMON. On December 6, 1950, you paid him \$20,000 and charged it to legal fees—legal expenses. What was that for?

Mr. WOODNER. Well, we were at that time very much interested in the future housing in other different cities. We had a great faith in the future of our country, and I went into various cities for the purpose—

Mr. SIMON. What did Mr. Chaite do for the \$20,000 in legal fees?

Mr. WOODNER. I am about to tell you, sir.

Mr. SIMON. Tell me what he did if you will, not you.

Mr. WOODNER. That is the only way I can tell you, that he, with me, I would say then, or he alone, aided in securing and analyzing and surveying and concluding many purchases of land and real estate in various cities of the country.

Mr. SIMON. What did he do for the \$20,000 you gave him on December 6, 1950, charged to legal expense?

Mr. WOODNER. It was on account I would say.

Mr. SIMON. Account of what?

Mr. WOODNER. On account of these various activities that I mentioned to you.

Mr. SIMON. Did he ever send you a bill for it?

Mr. WOODNER. I don't believe so.

Mr. SIMON. How do you know what project to charge it to?

Mr. WOODNER. If you move along, you see what activities are taking place, and there was a great sizable amount of work going on at the time, a sizable amount of activity, and I certainly didn't feel it was improper that it should be done.

Mr. SIMON. You don't have any idea what that was in payment of?

Mr. WOODNER. The fact is that this wasn't an employer-employee relationship here. This was a relationship in which my two friends—that a project would be conceived and probably entered into, or depending upon the success or failure of the thing, a determination would then be made as to our relative contributions.

The CHAIRMAN. You are talking about the \$20,000 you paid him on June 6, 1950?

Mr. WOODNER. I am talking about, sir, that is probably one of many payments to him. I can't isolate it.

The CHAIRMAN. What did he do for you on July 2, 1951, where you paid him \$5,000 and charged it to a suspense account?

Mr. WOODNER. It might be involved as an expense because he was traveling all over the country for me.

The CHAIRMAN. That is in 1950. Again in 1950, you paid him on August 7, \$15,000, and then on October 12, you paid him \$5,796 or in 1950 you paid him a total of \$41,000.

Mr. WOODNER. That was in connection with this purchase of real estate.

Mr. SIMON. Where did he purchase the real estate? Give us one piece of real estate that he purchased—just one.

Mr. WOODNER. San Francisco, Calif.

The CHAIRMAN. Did you build something out there?

Mr. WOODNER. No, sir.

The CHAIRMAN. Do you still own the real estate?

Mr. WOODNER. We sold it about a year or year and a half ago.

The CHAIRMAN. Give us the location.

Mr. WOODNER. San Francisco, corner of California Street, and—well, Taylor Street, I believe.

The CHAIRMAN. What did you pay for it?

Mr. WOODNER. A total of about—there were two pieces there, and there was a total of about \$635,000 or so.

The CHAIRMAN. Did you actually pay for it?

Mr. WOODNER. Oh, no. We paid part of it.

The CHAIRMAN. How much did you pay down?

Mr. WOODNER. I think the first piece was purchased with a downpayment of about \$20,000, the balance in mortgage.

The CHAIRMAN. Can we find the canceled checks on the \$20,000?

Mr. WOODNER. I believe you can, sir.

The CHAIRMAN. We can?

Mr. WOODNER. Yes, sir.

The CHAIRMAN. Was that charged to suspense?

Mr. WOODNER. I don't believe so. I am sure it was charged—

The CHAIRMAN. Will you bring in to us tomorrow the canceled checks of the \$20,000 downpayment on this particular piece of land?

Mr. WOODNER. It might be a little more or less than \$20,000. I will bring you the canceled checks. I will attempt to find for you the canceled checks.

The CHAIRMAN. What other real estate did Mr. Chaite purchase for you for a fee of \$41,000?

Mr. WOODNER. He purchased a parcel for us in Sacramento, Calif.

The CHAIRMAN. Do you still own that?

Mr. WOODNER. No. That was sold also.

The CHAIRMAN. How much did you pay for that?

Mr. WOODNER. I would say roughly \$150,000 or so. I am not certain.

The CHAIRMAN. What other piece of real estate did he buy for you?

Mr. WOODNER. He purchased a parcel of land for us in Baltimore, Md.

The CHAIRMAN. How much did you pay for that?

Mr. WOODNER. I think the purchase price was around \$350,000 to \$400,000.

The CHAIRMAN. Do you still own that?

Mr. WOODNER. No, sir. That was sold also.

The CHAIRMAN. Did you make a profit on all these pieces of real estate you sold?

Mr. WOODNER. Not on all of them, sir.

The CHAIRMAN. Isn't it a fact that each one of those purchases he made was purchased in your individual name?

Mr. WOODNER. Very often a person purchases—I don't know whether they used my name or my brother's.

The CHAIRMAN. To use your money, purchased in your name, resold in your name, and profit made in your name?

Mr. WOODNER. I believe all the purchases—I am not certain of this, sir, but this is my general recollection.

The CHAIRMAN. We will check into the records.

Mr. WOODNER. May I answer it, please? It is a pertinent question.

The CHAIRMAN. Yes.

Mr. WOODNER. First, if it is bought in an individual's name, and all of these weren't—I am sure some of them were bought in the company name—that sometimes the purchaser doesn't like to sell it to a corporation. They prefer to sell it to an individual.

Secondly, I believe, and I know for a fact, that all the moneys that were either made on these projects, all the moneys went back into the total corporate interest. All the moneys went back into the total corporate interest, and I believe in most of these transactions, it was always considered. I am not absolutely certain.

Mr. SIMON. I think you will find, Mr. Woodner, if you check, the books will not bear you out. What happened is the company put up the money. The company got the money back, but the profits were credited to you personally. And the corporation didn't get the profits.

Mr. Woodner—

Mr. WOODNER. I am not certain of that, sir. I can't testify to it. I will say one thing, however, that—

Mr. SIMON. Let me ask—

Mr. WOODNER. That the determination of that was completely left—

The CHAIRMAN. Was that left to Mr. Granger?

Mr. WOODNER. I don't know whether Granger, bookkeeping staff or tax advisers. I am not certain how it was handled. All I know is this: That all the profits, earnings or losses, whatever they were, went into or out of our total corporate interest and they were used for the purpose of completing our obligation under FHA and very often at very great sacrifice.

Mr. SIMON. I think you will find that is exactly the opposite of what happened, that you got the profits.

Mr. WOODNER. If it is, it is a surprise to me.

Mr. SIMON. Your books showed you paid Chaite \$75,000 and Chaite's books showed he got roughly \$55,000. Can you explain the difference?

Mr. WOODNER. Yes. I don't want to explain it accurately, but in general a person can't move all around the country, and acquire interest in these kind of parcels of land, without some expenditures of funds for travel, entertainment, many types of expenditures.

Mr. SIMON. The point I am trying to make is you have issued checks to Chaite which never got to Chaite, or at least were never cashed by him.

Mr. WOODNER. Perhaps he considered them as expense in his accounts and on our accounts they were expenditures.

Mr. SIMON. I am not going into the question of how he considered them for his income-tax purposes. I am merely talking about checks you issued to him which his books don't show he received. I will be specific if it will help. On October 12, 1950, you issued check No. A-6048, to Chaite, for \$5,796.50, and in 1950, Chaite, the whole year, Chaite shows no check anywhere near that amount. In fact he shows 2 checks from you in the whole year, 1 for \$15,000 and 1 for \$20,000, but he does not show a check for \$5,796.40. Can you explain that?

Mr. WOODNER. No, sir. I cannot explain that.

Mr. SIMON. I might add that check was charged to suspense.

Mr. WOODNER. Probably because it was an indeterminate matter.

Mr. SIMON. I might add that the check was endorsed by Chaite and then a second endorsement on the check is J. R. Stuckey. Who is J. R. Stuckey?

Mr. WOODNER. He is one of our employees.

Mr. SIMON. One of your employees?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Why would you be issuing a check to Chaite charging it to suspense, having Chaite endorse it, and then have the final endorsement be one of your employees and the check does not show on Chaite's books?

Mr. WOODNER. I would not know how to explain that, sir.

Mr. SIMON. You just can't explain that?

Mr. WOODNER. No, sir.

Mr. SIMON. Going back to this list, who is Samuel Block?

Mr. WOODNER. Samuel Block is a public-relations person.

Mr. SIMON. What did he do for \$17,000 charged to the Woodner? I am sorry, \$10,000 charged to the Woodner?

Mr. WOODNER. Was it \$10,000, sir?

Mr. SIMON. \$10,732.

Mr. WILLIAMSON. What list is that, Mr. Simon?

Mr. SIMON. The list that the General Accounting Office prepared for us.

Mr. WILLIAMSON. What page?

Mr. SIMON. Schedule A, the first page. What did Mr. Block do for the \$10,732?

Mr. WOODNER. Mr. Block was a public-relations person.

Mr. SIMON. What did he do for that money?

Mr. WOODNER. Well, what a public relations person does. You engage them to—that is a big question actually—

The CHAIRMAN. That is a good question.

Mr. WOODNER. It is a general question. I can't answer any better than that.

Mr. SIMON. Let's be more specific. Public relations people cover everything from getting your picture in the Sunday newspapers to maybe passing out money to places that it will do the most good.

Mr. WOODNER. I can assure you the latter is absolutely not true. It is absolutely untrue.

Mr. SIMON. I am just asking you.

Mr. WOODNER. First, I came to the conclusion it was quite unproductive and that is why our monthly agreement was terminated.

Mr. SIMON. I am asking you what Mr. Block did for this \$10,000 that was charged to the Woodner project?

Mr. WOODNER. First I didn't know it was charged to the Woodner project, because it was a service to the Jonathan Woodner Co., generally, and——

Mr. SIMON. What were the services?

Mr. WOODNER. Well, advising us if he knows of any new type of work that is going to develop, building up our relations with the press, or people, or at one time there was a concept that I think there was a centennial celebration was being contemplated. He had done a lot of that type of work in the New York World's Fair. He certainly would have been qualified for that type of work here.

In other words, I can quite say it was incomplete and unproductive. I have no specific information.

The CHAIRMAN. Most anybody in public relations and advertising work is like that.

Mr. SIMON. Who is James Hints?

Mr. WOODNER. An attorney.

Mr. SIMON. What did he do for \$14,700?

Mr. WOODNER. He was our attorney.

Mr. SIMON. Did he ever send you a bill?

Mr. WOODNER. If——

Mr. SIMON. Did he ever send you a bill, Mr. Woodner?

Mr. WOODNER. I believe he did send us a bill sometime, but I don't remember that amount.

Mr. SIMON. What did the bill say he did for the money you paid him?

Mr. WOODNER. He was our original attorney on our Chanute Field project.

Mr. SIMON. He was the attorney in the Chanute Field project?

Mr. WOODNER. Yes. I think he was the attorney of record on our Chanute Field project.

Mr. SIMON. Why was his fee charged to the Washington project?

Mr. WOODNER. Probably at that time we did not have a project. Chanute Field had not become a reality. It was in the sphere of applications, and representations.

Mr. SIMON. Was this total fee paid for the Chanute Field project?

Mr. WOODNER. Yes, sir.

Mr. SIMON. \$5,000 went to Daniel J. Hanlon.

Mr. WOODNER. \$5,000?

Mr. SIMON. What was that for?

Mr. WOODNER. He was an attorney.

Mr. SIMON. What did he do for the \$5,000?

Mr. WOODNER. I don't remember. What date was that, sir?

Mr. SIMON. 1950, he got——

Mr. WOODNER. What date in 1950? It is rather significant.

Mr. SIMON. May and June.

Mr. WOODNER. What is that?

Mr. SIMON. He got \$2,500 on May 9, 1950, and he got \$2,500 on June 1, 1950.

Mr. WOODNER. First, as I understand——

The CHAIRMAN. I might say this. Unless you delivered the canceled checks from Mr. Granger's New York office, those two checks are still missing.

Mr. WOODNER. I don't believe we delivered those checks.

The CHAIRMAN. Did you deliver those two checks, Mr. Granger, to our people today?

Mr. GRANGER. I don't believe so.

Mr. SIMON. Then those checks are missing.

Mr. WOODNER. That was period of time incidentally in which I had made my decision as to which I wanted to protect, my business or home. I decided to protect my home in that period. I don't know the specific reason why Dan Hanlon was paid, but as I understand and I am advised, it was to the Jonathan Woodner Co., and—

Mr. SIMON. What did—

Mr. WOODNER. And distributed over all our projects.

Mr. SIMON. What did Mr. Hanlon do for the \$5,000?

Mr. WOODNER. I do not know, sir.

Mr. SIMON. Why did you pay him \$5,000?

Mr. WOODNER. I believe the company paid him, sir.

Mr. SIMON. Didn't you have anything to do with it?

Mr. WOODNER. I explained to you very shortly, just a moment before this, sir, what I was doing at that moment.

Mr. SIMON. I would like to just have you tell me—

Mr. WOODNER. I told you what I was doing at that moment.

Mr. SIMON. What did Mr. Hanlon do for the \$5,000?

Mr. WOODNER. He was an attorney for us.

Mr. SIMON. What did he do for it? What did he do for it?

Mr. WOODNER. I do not recollect.

Mr. SIMON. Do you have any idea how he was representing you or what he was representing you in connection with?

Mr. WOODNER. I do not recollect, sir.

The CHAIRMAN. The gentleman doesn't recollect.

Mr. SIMON. Was it in connection with your marital troubles?

Mr. WOODNER. I do not recollect, sir.

Mr. SIMON. Did he ever represent you in anything other than your marital troubles?

Mr. WOODNER. I do not recollect, sir.

Mr. SIMON. Do you know his middle initial?

Mr. WOODNER. I think you mentioned it, sir.

Mr. SIMON. I was wondering whether you recollected that.

Who are John and Mary Finn?

Mr. WOODNER. John and Mary Finn are a couple who were farmers.

Mr. SIMON. What did they do for \$5,000?

Mr. WOODNER. They sold me some land.

Mr. SIMON. Sold you some land?

Mr. WOODNER. Yes.

Mr. SIMON. When did they sell you the land?

Mr. WOODNER. What date does the check show?

Mr. SIMON. When did they sell you the land?

Mr. WOODNER. It is probably more than one parcel there, because it was a release from a farm that they sold us and we took over part.

Mr. SIMON. I might add that check is missing from the files.

Mr. WOODNER. I know where it was used, for the purchase of a project known as Fenwood Apartments, of which you have a record there.

Mr. SIMON. Who is Joseph Macy?

Mr. WOODNER. Joseph Macy is my brother-in-law.

Mr. SIMON. What did he get \$3,700 for?

Mr. WOODNER. He works for the company.

Mr. SIMON. Is that salary?

Mr. WOODNER. I don't know what it was for, whether it was salary.

Mr. SIMON. We have a \$3,700 check to him in January of 1950, and there is no indication of what it was for and it is charged to suspense.

Mr. WOODNER. Well, it probably should have been distributed over the various projects, because he works for the company, and all the activities we do.

Mr. SIMON. Does he get \$3,700 a week salary?

Mr. WOODNER. No. That might have been in the term, sort—

Mr. SIMON. In what?

Mr. WOODNER. In the term of sort of a bonus at the end of the year or something of that nature.

Mr. SIMON. Do you know what it was for?

Mr. WOODNER. My recollection is it was for a purpose something like that because of the date you mentioned. He normally gets a straight salary.

Mr. SIMON. The date was January 31, 1950.

Mr. WOODNER. Perhaps by that time we made the allocation.

Mr. SIMON. But you don't know what else it was for?

Mr. WOODNER. No, sir; other than generally speaking, a compensation for effort.

Mr. SIMON. Who is Murray Gurfein?

Mr. WOODNER. An attorney.

Mr. SIMON. What did he do for \$5,000?

Mr. WOODNER. He was an attorney that represented me and my company.

Mr. SIMON. What did he do for the money?

Mr. WOODNER. He was just an attorney. We paid him for his attorney's fees and advice.

Mr. SIMON. What did he do?

The CHAIRMAN. You have been kind of a sucker for attorneys and detectives, haven't you?

Mr. WOODNER. I have, sir.

Mr. SIMON. Was that in connection with your marital problems?

Mr. WOODNER. My marital problems and business problems were completely intertwined because it was a family business.

Mr. SIMON. I merely asked you if the \$5,000 to Murray Gurfein was in connection with your marital problems?

Mr. WOODNER. I would say both.

Mr. SIMON. Did he send you a bill?

Mr. WOODNER. I believe so.

Mr. SIMON. What did the bill say?

Mr. WOODNER. Services rendered, I suppose.

Mr. SIMON. Where is the bill?

Mr. WOODNER. I don't know, sir.

Mr. SIMON. Is it in the files of the company?

Mr. WOODNER. It may be.

Mr. SIMON. The auditors couldn't find it.

Mr. WOODNER. It may be in the New York office.

Mr. SIMON. It may be where?

Mr. WOODNER. I wouldn't attempt to guess where a bill is.

Mr. SIMON. You were served with a subpoena to produce all the records of the company.

Mr. WOODNER. I think we extended ourselves immeasurably in producing in the Woodner a terrifying mass of materials in a very, very short time, enough to fill at least four rooms.

Mr. SIMON. You haven't produced the bill for Murray Gurfein.

Mr. WOODNER. I tried to produce them all, sir.

Mr. SIMON. Who is George Greenberg?

Mr. WOODNER. I don't know, sir.

Mr. SIMON. You don't know?

Mr. WOODNER. No, sir.

Mr. SIMON. Why would he get \$1,000?

Mr. WOODNER. I wouldn't know, sir.

Mr. SIMON. You don't even know who he is?

Mr. WOODNER. I don't remember him, sir.

Mr. SIMON. Who is Jerome Menkis?

Mr. WOODNER. Jerome Menkis was a finder.

Mr. SIMON. A finder?

Mr. WOODNER. Yes, sir. That is a term, I believe, he used.

Mr. SIMON. What did he find for \$9,000?

Mr. WOODNER. As I answered last night, he found me the opportunity of losing a million dollars in cash.

The CHAIRMAN. What?

Mr. WOODNER. Of losing a million dollars in cash on the Chanute Field project.

Mr. SIMON. Why would that \$9,000 be charged to the Woodner here in Washington?

Mr. WOODNER. Well first, it was, again, one of these charges that should have been charged probably to the operation of our company and at that time since the Chanute Field project had not become a reality it was put in the same category as any charge to a company in its initial phases of doing work.

Mr. SIMON. Who is Alvin Wallace?

Mr. WOODNER. Alvin Wallace?

Mr. SIMON. Yes; Alvin T. Wallace. You never heard of him?

Mr. WOODNER. It means nothing to me.

Mr. SIMON. You never heard of him?

Mr. WOODNER. It means nothing to me.

Mr. SIMON. You wouldn't know why he did get a check?

Mr. WOODNER. Not offhand.

Mr. SIMON. Who is Benjamin Curran?

Mr. WOODNER. He is also a detective; well-known one.

Mr. SIMON. Did he work on your marital problems?

Mr. WOODNER. He was for the first week or so. It was the marital which involved the company as well as myself.

Mr. SIMON. Who is Frank Swanson?

Mr. WOODNER. I don't know, sir.

Mr. SIMON. Never heard of him?

Mr. WOODNER. I don't recollect him.

Mr. SIMON. You wouldn't know why he would get a check from the company charged to suspense?

Mr. WOODNER. I wouldn't know, sir.

Mr. SIMON. Who is Keith Morgan?

Mr. WOODNER. Keith Morgan was the owner of a house in Long Island.

Mr. SIMON. Why would he get a check from the company charged to suspense?

Mr. WOODNER. I don't know, sir. I don't believe it should have been, sir. It should have been charged to my personal account because I lived in that house.

Mr. SIMON. Who is Dick Pines?

Mr. WOODNER. He was a rental agent for Jonathan Woodner Co., I believe.

Mr. SIMON. Why would he get a check charged to suspense?

Mr. WOODNER. It shouldn't have been. I think it should have been charged to the company for which he worked. That was the Crestwood. He worked on two projects, Fenwood and Crestwood.

Mr. SIMON. Who is Peter Kusack?

Mr. WOODNER. Peter Kusack was a friend of mine whom the company had loaned something like \$1,500 or so, and for which we have a note and for which it has never been able to be collected. There was no other reason other than a friend who needed it, was very hard up.

Mr. SIMON. Who was Charles Swenson?

Mr. WOODNER. I don't know, sir.

Mr. SIMON. You don't know him?

Mr. WOODNER. No, sir.

Mr. SIMON. You don't know why he should get a check?

Mr. WOODNER. No, sir.

Mr. SIMON. Who is Audry Liss?

Mr. WOODNER. Audry Liss is a cousin of mine, who is a writer, worked for the National Infantile—National Foundation for Infantile Paralysis, and who was hired up, and I may have let her take, as a loan, a few hundred dollars or so.

Mr. SIMON. And charged that up to the Woodner cost of construction?

Mr. WOODNER. Well, I don't believe it should have been, sir. I believe it should have been to a general expense, to either me or the company.

Mr. SIMON. Who is Charles Gold?

Mr. WOODNER. Charles Gold; that is one of the things, Senator, you asked us to look into, sir.

The CHAIRMAN. I asked you to look into that. What is the answer?

Mr. WOODNER. Charles Gold & Son, Charles Gold & Son—the check was Charles Gold & Co. I had a chance to examine the check. It was endorsed by Charles Gold & Co.

The CHAIRMAN. What was it for?

Mr. WOODNER. It was Christmastime. I think it was a gift.

The CHAIRMAN. Charles Gold got a check December 21 for \$500 and then Charles Gold, on January 17, another check for \$400, and Frank Gold, on January 2, got on the same day 2 checks for \$800 each, or a total of \$1,600 and \$900—about \$2,500 in a period of 3 weeks. What was that for?

Mr. WOODNER. The two Charles Golds are probably for the same company, Charles Gold & Co.

The CHAIRMAN. What was the purpose of the checks?

Mr. WOODNER. For Christmas gifts.

The CHAIRMAN. What about Frank Gold?

Mr. WOODNER. Frank Gold, incidentally, as I noted here, there is a duplication here. That was one check and it was a mistake.

Mr. SIMON. What was their business?

Mr. WOODNER. I don't know Frank Gold.

The CHAIRMAN. Why would they be round numbers like \$500 and \$400. If you bought merchandise at least you wouldn't come out exactly \$800, would it?

Mr. WOODNER. No. I think it was a particular item which cost \$500.

Mr. SIMON. What was the business of Charles Gold?

Mr. WOODNER. I think they are manufacturing jewelers.

Mr. SIMON. And what did you buy for \$500?

Mr. WOODNER. The company made me a Christmas gift.

The CHAIRMAN. A watch?

Mr. WOODNER. It wasn't a watch. It was an engraved case. We were doing a lot of work at the time. We thought we had some money.

The CHAIRMAN. Was there a number of these things, to give to other people?

Mr. WOODNER. No. One of them was for, I think the \$500 one was for myself.

Mr. SIMON. You for \$900?

Mr. WOODNER. No, \$500.

Mr. SIMON. What were the other four?

Mr. WOODNER. I don't know about the other four.

Mr. SIMON. What about the \$400 and the \$800?

Mr. WOODNER. The \$800 I don't know. That was for Frank Gold, and I don't know that one.

Mr. SIMON. You don't know who Frank Gold is?

Mr. WOODNER. No, sir.

Mr. SIMON. You don't know why he got a check from your company?

Mr. WOODNER. No, sir.

The CHAIRMAN. He got two checks.

Mr. WOODNER. No. That was a duplication, sir. That was one check.

The CHAIRMAN. They got different check numbers here—you are right. They are the same numbers.

Mr. SIMON. You don't know who he is?

Mr. WOODNER. No, sir.

Mr. SIMON. You don't know why he should get a check?

Mr. WOODNER. I did as you suggested, Senator, I put in quite a few telephone calls to trace down Charles Gold because that was the name you mentioned last night, and I did check into that.

The CHAIRMAN. You couldn't find what Frank Gold, \$800, was for?

Mr. WOODNER. No, sir.

The CHAIRMAN. Where does Frank Gold live?

Mr. WOODNER. I don't know.

The CHAIRMAN. You just don't know. No records and nobody in your business has the slightest idea who Frank Gold is or why the check for \$800?

Mr. WOODNER. I took the trouble to do as you instructed last night to check into Charles Gold, which I made quite a bit of effort to do, and that is what I found out.

The CHAIRMAN. Frank Gold you can't find anything on?

Mr. WOODNER. No, sir.

The CHAIRMAN. Are you sure there was such a person?

Mr. WOODNER. Unless they were associated in the same business. I don't know, sir.

Mr. SIMON. Mr. Woodner, on this same list, on page A-16, that your lawyer has, there are 5 checks totaling \$14,500 to cash, charged to the suspense account, and they are missing from the files. What are they for?

Mr. WOODNER. I don't know, sir. I have written a letter incidentally to the Riggs National Bank. I called them yesterday, to try to find out what they were. The bank advises that their man in charge of that was engaged with this particular committee, and I therefore wrote them a letter and requested photostatic copies of those particular checks.

Mr. SIMON. How do you expect to get the bank to tell you what they are for?

Mr. WOODNER. Well, first you asked if they were missing, and that would be one way of bringing that part to the surface.

The CHAIRMAN. The bank will show just what the record shows, that they were for cash and the date.

Mr. WOODNER. That is right, sir.

The CHAIRMAN. That won't help you to discover what they were for.

Mr. WOODNER. At least they wouldn't be missing from the file any more.

Mr. SIMON. Who are Gainsburg, Gottlieb, et al?

Mr. WOODNER. Gainsburg, Gottlieb, Levitan & Cole are attorneys.

Mr. SIMON. What did they do for \$7,700?

Mr. WOODNER. They were the attorneys in connection with the marital and business matter, and which we were being sued by my ex-wife.

Mr. SIMON. That was charged to the cost of construction of the Woodner?

Mr. WOODNER. Part was. Part was charged to my personal account, I believe.

Mr. SIMON. \$7,765 was charged to the cost of construction. What was—was there an additional bill to that?

Mr. WOODNER. As I say, that charge, again, was a charge of, I believe, against the general interests of all of our companies which were being under suit at the time.

Mr. SIMON. L. N. Rosenbaum & Son: Who were they?

Mr. WOODNER. L. N. Rosenbaum & Son were, they acted as brokers in negotiating some loans for us.

Mr. SIMON. What did they do for their \$1,500?

Mr. WOODNER. They negotiated a loan for us.

Mr. SIMON. Do you have an invoice or any supporting statement to show why they got that money?

Mr. WOODNER. I believe so. I think I know the transaction. I remember it.

Mr. SIMON. Where is the invoice?

Mr. WOODNER. I don't know, sir.

Mr. SIMON. Who is Richard Kelly?

Mr. WOODNER. Richard Kelly is a little expert.

Mr. SIMON. A little expert?

Mr. WOODNER. Expert, or consultant, whatever you might say.

Mr. SIMON. Why would he get \$500 with no supporting statement?

Mr. WOODNER. I think we have gotten a lot of supporting statements. We still owe him some money.

Mr. SIMON. Who is Marshall, Brighton & Klein?

Mr. WOODNER. They are attorneys for one of the lenders that loaned us some money on collateral, which we put up in order to place additional funds to complete our projects.

Mr. SIMON. Who are Loshan & Lazarus?

Mr. WOODNER. They are real-estate attorneys in New York City that have handled several of our closings on FHA and other real-estate matters.

Mr. SIMON. What did they have to do with the Woodner apartment house?

Mr. WOODNER. I think it was, again, we get into the realm of general overhead and the Woodner Apartments being part of our total construction, a certain portion would be allocated to them.

Mr. SIMON. Who is Sidney Allen?

Mr. WOODNER. Sidney Allen is an attorney also.

Mr. SIMON. What did he do for \$2,250?

Mr. WOODNER. He defended a suit against the title of one of our projects in Wilmington, Del., and probably his cost would be allocated in the same fashion.

Mr. SIMON. Who are Goodwin, Rosenbaum, Mecham & Bailey?

Mr. WOODNER. They are attorneys.

Mr. SIMON. What did they do for \$6,600?

Mr. WOODNER. They are tax attorneys for our general company.

Mr. SIMON. Tax attorneys?

Mr. WOODNER. Yes, sir.

Mr. SIMON. They handled your tax problems?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Mr. Woodner, do you have a copy of this list, three pages long, of checks to cash?

Mr. WILLIAMSON. Which list is that?

Mr. SIMON. The list of checks drawn to cash, checks payable to cash, but no supporting data. Do you have a copy of that, Mr. Woodner? Have you ever been shown that?

Mr. WOODNER. Mr. Williamson may have it.

Mr. WILLIAMSON. Is it among these papers, Mr. Simon?

Mr. SIMON. Yes.

Mr. Woodner, on January 5, 1951, 3 checks were drawn to cash, which are 3 consecutive numbers—7912, 7913, and 7914. One check was for \$300, one for \$2,250, and one for \$2,450. By odd coincidence they total up exactly \$5,000. They were charged against you and they have three endorsements on the back. The first, E. Macy, second, W. Holladay, and third, Irving Stern.

Do you know what those check are for or who got that money?

Mr. WOODNER. They were probably cashed for the purposes of the company.

Mr. SIMON. For what purpose?

Mr. WOODNER. General purposes.

Mr. SIMON. Would that include paying somebody \$5,000 for expediting something?

Mr. WOODNER. No, sir. I don't know——

Mr. SIMON. What are they for then?

Mr. WOODNER. What is that, sir?

Mr. SIMON. What are they for?

Mr. WOODNER. They were charged to my account for expenditures which I probably made.

Mr. SIMON. What were the expenditures?

Mr. WOODNER. The general expenditures that I would have had in my personal, or business expenditures.

Mr. SIMON. Why would there be 3 checks in 1 day totaling exactly \$5,000?

Mr. WOODNER. I don't know, sir.

Mr. SIMON. Why would't 1 check for \$5,000 be drawn?

Mr. WOODNER. If the purpose was for one particular item, I think it would be much more natural it should be.

Mr. SIMON. If they were for 3 separate items and you wanted to keep them separate, what were the purposes for the 3 of them?

Mr. WOODNER. I cannot recollect now, sir. I think it would be futile for me to attempt to.

Mr. SIMON. Is there any record anywhere in the world that will show what that \$5,000 was spent for?

Mr. WOODNER. Not that I know, sir.

Mr. SIMON. None at all?

Mr. WOODNER. Not that I know, sir.

Mr. SIMON. Don't you keep records of what you do with corporate funds in that amount?

Mr. WOODNER. I believe these are personal funds. I am not certain. I believe they are.

Mr. SIMON. Why were the checks signed first by Macy, then Holladay, and finally by Stern, who were all three employees, aren't they?

Mr. WOODNER. Yes.

Mr. SIMON. Why would the three of them be on it?

Mr. WOODNER. I do not understand, sir.

Mr. SIMON. The next month you did the same thing again, you drew 2 checks for quite odd amounts, \$2,442, \$2,558, both on the same day. The checks are consecutive numbers, A-8651 and A-8652, and by sheer coincidence they total \$5,000. What happened to that money?

Mr. WOODNER. Probably for the same purpose.

Mr. SIMON. The same purpose?

Mr. WOODNER. Yes, sir.

Mr. SIMON. What was that purpose?

Mr. WOODNER. The purpose was probably myself or my business, sir.

Mr. SIMON. You don't know which?

Mr. WOODNER. Or both.

Mr. SIMON. You don't know what the business was?

Mr. WOODNER. Yes. I know what my business is, sir.

Mr. SIMON. What was the business for which these checks were drawn?

Mr. WOODNER. That was cash, sir, and it was cash for which I used for either my personal needs. They were charged to my account.

The CHAIRMAN. Mr. Woodner, why would you have in 1 instance 3 checks to make \$5,000 on the same day and in another instance 2 checks to make exactly \$5,000 in the same day, and all the checks were signed by different employees in your employ?

Mr. WOODNER. I can't explain, sir, because it seems like an odd coincidence, but I am certain that it might have been that on that day something might have required a certain amount; later on it might have required another amount.

The CHAIRMAN. What is the business of this company? They are made out to cash?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Mr. Woodner, on March 19, you drew a check to cash, and the only notation in your books is that it was to be charged to job X and it was for the round sum of \$2,500. Isn't job X your code name for the Woodner Hotel?

Mr. WOODNER. I believe it is.

Mr. SIMON. What was the check for \$2,500 drawn to cash and charged to job X?

Mr. WOODNER. I cannot recollect, sir, unless they needed some cash on the job, because every once in a while they have to lay off some men.

Mr. SIMON. No idea?

Mr. WOODNER. All of a sudden. No; I don't know, sir.

Mr. SIMON. We have another page of checks totaling \$37,000, drawn to cash, which I understand the checks were missing, but most of them turned up this morning. There is no supporting data, and most of them are charged to exchange, and they are all in round numbers, with two exceptions. What would those checks be for?

The CHAIRMAN. Where did you find these checks, in your office, Mr. Granger, in New York?

Mr. GRANGER. No, sir. I believe the checks were found in the 1265 room of the records rooms.

The CHAIRMAN. Is that correct?

Mr. DELMORE. That is not the explanation we got.

Mr. NEWMAN. We were told by Mr. Pace, the Woodner representative, for the record, that there would be 1265; the checks were forwarded by Marshall Granger & Co. and were received this morning.

The CHAIRMAN. Why would you have those checks in New York, Mr. Granger?

Mr. WILLIAMSON. If I may state off the record—

The CHAIRMAN. No, Mr. Granger, why would you have those checks in New York? I can understand why you might have all the checks for 1 month or 1 year, but here are checks of different dates, and pulled out, different numbers, and all to cash. Why would you be holding those in New York?

Mr. GRANGER. The only checks that we had in New York, as I am told—I haven't seen them, but I am told by the people in my employ that the only checks we had in New York were some checks which were voided in 1952. We prepared a journal entry because we found in 1952 the checks had never been issued, and had never even been signed, and, therefore, were not proper outstanding items, so we said, "These should be canceled and voided," and we made a journal entry, and we took the checks to support our journal entry.

Then we found these checks—we were asked by the company people, Woodner people, for these checks, so we gave them to them.

The CHAIRMAN. What is your answer to that Mr. GAO?

Mr. NEWMAN. That is my recollection of the transaction. The startling thing about the transaction is the checks were issued in 1948, the journal entry appears in 1952.

The CHAIRMAN. What is the journal entry?

Mr. NEWMAN. The journal entry was wiping out the checks. The entry was a debit to the Riggs Bank or a cash account and credit to surplus. That is 4 years after the checks were issued.

Mr. SIMON. Were the checks actually issued?

Mr. WILLIAMSON. They were never issued and signed.

Mr. NEWMAN. They were issued in the original books, the disbursement record of the company, as being disbursed.

Mr. SIMON. Were they disbursed?

Mr. NEWMAN. From what was just said, the checks were never signed.

Mr. SIMON. Do you have the checks?

Mr. NEWMAN. The checks are up in room B-1265, of the Woodner Hotel.

Mr. SIMON. You have never seen them?

Mr. NEWMAN. I personally have not seen them.

The CHAIRMAN. Will you see they are delivered to this desk tomorrow morning at 10 o'clock, these checks that were never signed? I would like to see them.

Mr. NEWMAN. Mr. Chairman, we can't go from here to the men's room with any records; we can't move out of that one office we have.

The CHAIRMAN. Will you, Mr. Attorney, deliver those checks to us tomorrow morning?

Mr. WILLIAMSON. I can deliver them to you this evening if you want them.

The CHAIRMAN. I want them here tomorrow.

Mr. WILLIAMSON. Fine. We will bring them in.

The CHAIRMAN. I want to see these checks that were pulled out that were not signed.

Mr. WILLIAMSON. That is on this list that you gave us at the executive hearing the other day.

Mr. SIMON. Mr. Woodner, there is an item on November 8, 1949, a check for \$2,000, no invoice in your files, and it is charged to promotion. What was being promoted for \$2,000?

Mr. WOODNER. What year is that, sir?

Mr. SIMON. November 8, 1949, a check for the round sum of \$2,000, charged to promotion.

Mr. WOODNER. I think the general term is travel and promotion.

Mr. SIMON. This one just says "promotion."

Mr. WOODNER. That is probably——

Mr. SIMON. What was being promoted for that round sum of \$2,000?

Mr. WOODNER. I would say travel and promotion.

Mr. SIMON. Travel never comes out to a round sum like \$2,000.

Mr. WOODNER. Well, sir, you will notice through the whole history of our company, that I have never taken, or given what some people do and many people do not do, and that is a weekly report of my travel or promotion, or entertainment to the company and get reimbursed on a weekly basis. This is——

Mr. SIMON. Whether any of this money actually found its way to places it shouldn't have gone, there is certainly nothing in your books to indicate where a lot of this cash went, isn't that true?

Mr. WOODNER. If you will find during the period of time there that I was doing a great deal of traveling. I was doing a great deal of entertaining. We had some money at that time. I had been under

great emotional stress. I had taken a trip to Nassau. I probably was spending more than I should.

Mr. SIMON. Was your trip to Nassau on company business?

Mr. WOODNER. It was a trip in which—I had been under great emotional strain, you know.

Mr. SIMON. My question was whether it was on company business.

Mr. WOODNER. Yes, sir. I would say it was for the benefit of the company.

Mr. SIMON. What was your business in Nassau?

Mr. WOODNER. Recuperating so I could protect the assets of my company.

Mr. SIMON. I suppose in that case when you buy yourself a cot you charge that to the company on the basis you had a cold?

Mr. WOODNER. No, sir. This was a specific thing. I assure you had I done it more often the company would not be in the distress it is at the moment.

Mr. SIMON. Your theory is when your company spends money for you to recuperate that is a benefit to the company and therefore a proper charge against the company?

Mr. WOODNER. I know many large corporations which have country places in which they send their executives.

Mr. SIMON. We are talking about the Woodner now.

Mr. WOODNER. Yes, sir, on that same theory.

Mr. SIMON. Going to this list of journal entries: On May 30, 1948, they credited you in a journal entry with \$15,000, of which \$10,000 was to charge against the company travel and promotion.

Do you have any itemized statement of what that travel and promotion consisted of?

Mr. WOODNER. I had been doing a fair amount of traveling. I lived in New York City. Most of my work was here.

Mr. SIMON. My question was whether you had any detailed statement as to what that travel and promotion was for?

Mr. WOODNER. I don't believe so, sir.

Mr. SIMON. You don't have any information as to how much was travel and how much was promotion?

Mr. WOODNER. No, sir, but I think it was fully expended, if not more.

Mr. SIMON. Now, on December 31, 1949, they gave you a credit of \$27,000 to clear a suspense account. What was that for?

Mr. WOODNER. I have no idea.

Mr. SIMON. You have no idea whatsoever?

Mr. WOODNER. No, sir.

Mr. SIMON. \$27,000 charged to suspense, and you given a credit for it and you don't have any idea what it is for?

Mr. WOODNER. That is the first time I have heard of it.

Mr. SIMON. The first time you heard of it?

Mr. WOODNER. Yes, sir.

Mr. SIMON. On December 31, 1950, they gave you a credit of \$31,000, and part of that was charged against cash exchange, and the reason given on the books is "to reclassify." Why was \$21,000 charged against cash exchange, and you given credit for it?

Mr. WOODNER. I have no idea, sir.

Mr. SIMON. No idea whatever?

Mr. WOODNER. No, sir.

Mr. SIMON. On the same day there was an agreement transferring about \$800,000 back and forth, and it says "to transfer per agreement." Is that a written agreement or oral agreement?

Mr. WOODNER. May I ask—

The CHAIRMAN. Would Mr. Granger know? You ought to know about that.

Mr. SIMON. Page 6, Mr. Granger.

The CHAIRMAN. A large amount, \$8,000?

Mr. SIMON. \$800,000.

The CHAIRMAN. It would be hard to forget \$800,000.

Mr. SIMON. It is a total of several items which add up to about \$800,000.

Mr. GRANGER. I have looked into that the best I could in 24 hours, and I understand that entry was made. The agreement was this—

Mr. SIMON. My question is whether the agreement was oral or written.

Mr. GRANGER. It was oral.

Mr. SIMON. An oral agreement, and who was the agreement between?

Mr. GRANGER. It was between all of these corporations involved.

Mr. SIMON. They are all Mr. Woodner's companies, aren't they?

Mr. GRANGER. Yes.

Mr. SIMON. So what you are saying, this was an agreement by Mr. Woodner with Mr. Woodner to make these changes?

Mr. GRANGER. I would like to explain. This is a very simple entry and I think I have the explanation. Up to the time of this entry, every corporation had had intercompany accounts with every other corporation, so that with 35 different corporations, it was a case of too many intercompany accounts, so one of the employees of the company, in charge of the office, hit on the idea that from this point on, we would have one corporation act as the clearinghouse, so that there would be only one intercompany account on any company's books. That would be with this clearinghouse corporation, so that this entry was simply transferring the balance so they all went into each company owed just one intercompany balance. That was with this clearinghouse company.

The CHAIRMAN. Who was the clearinghouse company?

Mr. GRANGER. Empire Corp.

The CHAIRMAN. That is a new one. We have to look into that one. That is the first time we heard that name.

Mr. GRANGER. That is one of the affiliated companies. It was not a new company but it was decided that that was a company, that from a bookkeeping standpoint it simplified things.

Mr. SIMON. How did it wind up with a credit of \$79,000?

Mr. GRANGER. That was the net amount of the balances transferred back and forth. It was simply for bookkeeping convenience.

Mr. SIMON. On the next page, we start with these items that we suggested to you the other night were given by your company and do not appear on the books of the Woodner Co.; is that correct?

Mr. GRANGER. Yes, sir.

Mr. SIMON. Do the items shown on pages 7 through 11 consist of items that you have on your records but do not show on the Woodner books?

Mr. GRANGER. Yes, sir.

Mr. SIMON. Why is that, Mr. Granger?

Mr. GRANGER. At the end of the year 1951, it was very late in the year and we were—we closed out the books. We did not make an audit of any kind in that year, but we did help to close the books for the purpose of getting the tax return out, and the State tax returns as fast as we could, and these entries were put in our working papers and when the work was finished they should have gone on the books of the company. We asked them to put them on, but there were personnel changes and difficulties in the company and they didn't get on.

Mr. SIMON. It was almost 3 years that had gone by?

Mr. GRANGER. What happened was the company went ahead with the corrected balances of January 1, 1952, as shown by tax return, but for some reason, they have always been getting around to it but never have put the entries in there to close that gap. They have gone ahead with the correct balances but never closed the gap.

Mr. SIMON. When you say they have gone ahead with the correct balances you mean they have gone ahead with the adjusted balances because of these entries?

Mr. GRANGER. Yes, sir.

Mr. SIMON. Have you checked the items on pages 11 and 9 to determine whether that \$117,000 isn't in there twice?

Mr. GRANGER. I haven't been able to satisfy myself on that. I have talked to the men from the GAO about it and I think we have an understanding that they—and they agree, I believe, that I would look into it a little further and I would say I agree with them or point out something to the contrary.

The CHAIRMAN. It is simple, isn't it, to know whether it is in twice or not?

Mr. GRANGER. No, sir. There are compounded entries. There may be further entries on the books of other companies bearing on this thing. I don't know. I haven't had a chance to look at the book.

Mr. SIMON. In the 48 hours since we gave you that list you haven't been able to check with that, to check whether that \$117,000 is in twice or not?

Mr. GRANGER. No, sir. I think it would take 3 or 4 days to check it.

Mr. SIMON. What about this \$281,000 that the GAO people say was put in by the company and credited?

The CHAIRMAN. When you talk, Mr. Granger, will you talk into the microphone? Will you get another microphone for Mr. Granger?

Mr. WOODNER. Take this one, sir.

Mr. SIMON. What about the \$281,000 item the GAO people say was put in by the company and when it was returned it was credited to Woodner personally?

Mr. GRANGER. I have talked to the GAO people about that and that is in the same category. I think they agree with me that I should have a chance to look into the thing and study it and tell them I agree with him, it is an error or I will point out something to the contrary.

The CHAIRMAN. A pretty big order, \$281,000.

Mr. GRANGER. Yes, sir.

Mr. SIMON. Since Monday afternoon, you haven't been able to check whether that is a \$281,000 error?

Mr. GRANGER. I spent Monday morning in the GAO and I did a lot toward checking these on Tuesday afternoon. This entry also takes a little time to check through.

Mr. SIMON. Going back to page 7, the first of these entries gives Woodner personally credit for \$10,000. Then it says "to adjust expense details, WP." Does "WP" mean work papers?

Mr. GRANGER. Yes, sir.

Mr. SIMON. What did Mr. Woodner do to get that \$10,000 credit?

Mr. GRANGER. That is one item I haven't been able to find. I know we have it in our papers. Our office can't find it in New York.

Mr. SIMON. You can't find the justification for that \$10,000 credit?

Mr. GRANGER. Not in this short time. I know we will find it.

Mr. SIMON. The next item includes a credit of \$27,414 to Mr. Woodner. Can you tell us the justification for that credit?

Mr. GRANGER. That credit and all the other items in that entry are transferring balances which occur on the books of Inwood Corp. They are the—they are simply transferring the balances over to Jonathan Woodner Co., Washington.

Mr. SIMON. What did Mr. Woodner do to get that \$27,000 credit?

Mr. GRANGER. That I haven't been able to get details of, but I will get them. It takes a little more time.

Mr. SIMON. You don't know what he did there for that?

Mr. GRANGER. No, sir. There may be a number of items on it.

Mr. SIMON. On the same day, you transferred to suspense \$77,000. Or you credited suspense with \$77,000; is that right?

Mr. GRANGER. Yes, sir.

Mr. SIMON. And among the people who got debited was Arthur Chaite, got debited \$5,000. What is the justification of that transaction?

Mr. GRANGER. This entry represents quite a large number of items, which had been charged in suspense and were in the suspense account, but at the end of the year, we analyzed the suspense account and obtained explanations as well as we could for the items, and classified them, taking them out of suspense and charging them where they thought they should be charged.

Mr. SIMON. My question is that Chaite, who was a lawyer for the company, or a broker for the company, got charged with \$5,000 that you took out of the suspense. What was the justification for charging Chaite?

Mr. GRANGER. We found in the items charged to suspense \$5,000 paid to him, and this entry——

Mr. SIMON. That shouldn't have been paid to him?

Mr. GRANGER. No, sir. I don't know whether it should have been paid, but in this entry we charged it against him as an account receivable from——

Mr. SIMON. What I am trying to find out is if the money had been paid——

Mr. GRANGER. This would indicate it had been paid.

Mr. SIMON. That means it shouldn't have been paid to him?

Mr. GRANGER. No, sir. It indicated that he owed the money and should account for it or pay it back to the corporation.

Mr. SIMON. Did he pay it back to the corporation?

Mr. GRANGER. I am not familiar with the outcome of that, but I know we charged it against him in this way so it had to be accounted for by him in some way.

Mr. SIMON. He was not an employee. He was somebody on the outside?

Mr. GRANGER. That is right.

Mr. SIMON. Does that mean he got \$5,000 he wasn't supposed to get?

Mr. GRANGER. Not necessarily. It means he got \$5,000, and it would be repaid by him or he would send in a bill for it, or it could be disposed of in some way.

Mr. SIMON. Mr. Granger, when you made these entries the end of December 1951, did they give you supporting data to justify the entries?

Mr. GRANGER. They gave us explanations of some kind, or answered the questions which we put to them, and we made up the entries the best we could.

Mr. SIMON. Do you have that supporting data in your files?

Mr. GRANGER. Yes, sir.

Mr. SIMON. You do?

Mr. GRANGER. We have. The papers are in New York and just what we have in each case differs, but we do have analyses and supporting data on this.

Mr. SIMON. Do you have the supporting data to show what each of these items was for?

Mr. GRANGER. No, sir; not like this item of Arthur Chaite, I am sure. What we have on that is just a record as a \$5,000 item and our questions were asked and they said to charge it against him and it will be explained later so it was carried that way.

Mr. SIMON. Is what you are saying they just said "credit this and debit that and we will tell you why later"? Is that it?

Mr. GRANGER. No; but in the case of an item handled as an advance like that, it is a pending matter. It still—the final disposition hasn't been made so it will be carried as an advance.

Mr. SIMON. What I am trying to find out is on each of the items on which Marshall Granger made these journal entries which have never been put on the books did they give you the supporting data for each entry?

Mr. GRANGER. It would be impossible to generalize on that.

We had some kind of supporting data, explanations, or information in connection with every entry but it differs with each entry.

Mr. SIMON. Are you telling me when you had some kind of explanation that some of it might be purely oral?

Mr. GRANGER. Yes, sir.

Mr. SIMON. And you would make these entries on a purely oral statement of somebody in the Woodner employ?

Mr. GRANGER. Yes; if it seemed reasonable, we would. Remember, we were not making an audit in the year 1951. We made no kind of an audit or no kind of report or even a balance sheet for that year.

Mr. SIMON. Mr. Granger, you did subsequently certify audit statements for these companies?

Mr. GRANGER. No, sir; we never certified to any audit statement for any of these companies.

Mr. SIMON. We have in our files these very fancy auditors' reports, that say, "Marshall Granger" on them and they are fancifully bound; weren't those prepared by you?

Mr. GRANGER. Yes, sir; but those are not certified statements.

Mr. SIMON. In other words, you did not put down at the end an affidavit, "I hereby certify?"

Mr. GRANGER. The wording which is in there, "In our opinion these statements are correct."

Mr. SIMON. Do you distinguish between a report prepared by your company on your stationery and with your binder which does not contain that certificate, and one which does?

Mr. GRANGER. There is the difference in the scope of the work done; yes.

Mr. SIMON. Mr. Woodner, where are the paintings that the General Accounting Office people have testified were charged to construction and they cannot find?

Mr. WOODNER. First, these paintings are not charged to the construction of the job.

Mr. SIMON. Aren't they?

Mr. WOODNER. No, sir.

Mr. SIMON. Who are they charged to?

Mr. WOODNER. We have invested in the Rock Creek project over \$600,000 of furnishings.

Mr. SIMON. We are talking about paintings now.

Mr. WOODNER. Part of the \$600,000 are these paintings and they are in the Woodner.

Mr. SIMON. You say the paintings are in the Woodner?

Mr. WOODNER. Yes, sir.

Mr. SIMON. What about that, Mr. Newman? Did you find them?

Mr. NEWMAN. I will let Mr. Delmore answer that.

Mr. DELMORE. We asked to see them.

Mr. SIMON. Who did you ask?

Mr. DELMORE. Mr. Pace.

Mr. SIMON. What did he tell you?

Mr. DELMORE. He told us they weren't there.

Mr. SIMON. Can you tell us where in the Woodner they are?

Mr. WOODNER. Yes; they are in the Gold Room. If he asked me for them, he would have found them.

Mr. SIMON. Where is the Gold Room?

Mr. WOODNER. On the fourth floor.

Mr. SIMON. Is it a public room?

Mr. WOODNER. Yes, sir.

Mr. SIMON. What is it used for?

Mr. WOODNER. Receptions, wedding receptions.

I don't want to use the word promiscuously.

Mr. SIMON. How many pictures are there?

Mr. WOODNER. Two pictures of value and one very minor in value.

Mr. SIMON. Are those the pictures that are charged in the books here?

Mr. WOODNER. These were charged as I understand erroneously to painting on the job because it said painting on the invoice that came from the company.

They were furnishings and they are not part of the FHA mortgage.

Mr. SIMON. Did they cost \$6,600?

Mr. WOODNER. Yes, sir. Your auditors have a duplicate invoice signed by the people who sold them.

Mr. SIMON. There is no question but the house that sold the paintings got the money?

Mr. WOODNER. No.

Mr. SIMON. But they couldn't find the paintings.

Mr. WOODNER. They didn't look, sir. They just asked. They didn't look. They didn't ask me. Mr. Pace doesn't know this building. It is rather a complicated structure.

Mr. KANE. Mr. Chairman, under the arrangement made by the audit Mr. Pace was the official representative to ask any questions.

The CHAIRMAN. He knew his job was to go to Mr. Woodner with any questions?

Mr. KANE. No, Senator.

Mr. WOODNER. I will say this. May I add this?

The CHAIRMAN. Yes. You may say anything you care to.

Mr. WOODNER. Mr. Pace said he could not find the invoice. They asked him about it, and would I please try to get it?

He called me for it. I went to the company that sold them, and they had the duplicate invoice, which they signed.

The CHAIRMAN. These particular paintings were charged to the construction costs.

Mr. WOODNER. They should not have been, sir.

The CHAIRMAN. That was just an error?

Mr. WOODNER. It was complete error, because it said painting. They thought it was painting of the job, which was about \$300,000, and it was part of the furnishings in which we have already invested \$600,000 additional.

The CHAIRMAN. That was paintings for the lobby. They are not a permissible item. They do not come under the mortgage.

Mr. WOODNER. I understand that thoroughly, sir.

The CHAIRMAN. This amount was charged to the construction cost, and it went into the amount of the mortgage?

Mr. WOODNER. Complete error, sir.

The CHAIRMAN. You say that was an error?

Mr. WOODNER. Complete error.

Mr. SIMON. Mr. Woodner, I would like to change the subject for a minute. Did you know when you filed the application for mortgage on the Woodner that the law did not permit giving section 608 mortgages for hotels?

Mr. WOODNER. No; I did not know the law prevented that, and I might add that when we did get into it—

Mr. SIMON. When did you learn for the first time that the law did not permit a mortgage on a hotel?

Mr. WOODNER. I think it is the new law that specifically does not permit it.

Mr. SIMON. When did you learn that the old law was not interpreted to permit mortgages on hotels?

Mr. WOODNER. Well, it is a rather moot point, because I have heard interpretations of the law in many different fashions. I believe I will say this, however, that I did learn when we were part way through this building that the policy of the FHA was not to permit it.

Mr. SIMON. You did not learn that until you were part way through?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Before you began construction it was your intention to make this a hotel, wasn't it?

Mr. WOODNER. Absolutely not, sir.

Mr. SIMON. It wasn't?

Mr. WOODNER. Absolutely not.

Mr. SIMON. When did you first determine to make a hotel out of it?

Mr. WOODNER. It was a condition imposed upon the Rock Creek Plaza Corp. by the District of Columbia that in order to occupy certain commercial facilities within the buildings, which were there for the benefit of the permanent tenants, that it was necessary because of their zoning laws here that these—that certain number of transient rooms be provided.

Mr. SIMON. This much I gather, there is no doubt about, that in the original plans for the Woodner, you provided for commercial space on the ground floor?

Mr. WOODNER. Yes, sir.

Mr. SIMON. And the District of Columbia zoning laws prohibit commercial space in residential property, unless a certain percentage of it is hotel for transients, is that right?

Mr. WOODNER. The building department approved our plans as they were, submitted to the FHA, which showed these stores. I did not have knowledge of it, sir.

Mr. SIMON. And FHA approved your plans showing the commercial space?

Mr. WOODNER. Yes, sir.

Mr. SIMON. And you intended all the time to turn this into a hotel and use the commercial space for the hotel facilities, didn't you?

Mr. WOODNER. That is not my statement, sir. That is yours. It is not true.

Mr. SIMON. Do you deny it?

Mr. WOODNER. I deny it completely.

Mr. SIMON. Have you ever seen a letter dated December 20, 1949, to the Rock Creek Plaza—that is your company, isn't it?

Mr. WOODNER. Yes, sir.

Mr. SIMON. That is your company?

Mr. WOODNER. Yes, sir.

Mr. SIMON. That is the one that owns this property out here?

Mr. WOODNER. Yes, sir.

Mr. SIMON. From A. A. Bliss, of the legal division of the Irving Trust Co.

Mr. WOODNER. Yes, sir.

Mr. SIMON. Have you ever seen that letter?

Mr. WOODNER. It has been shown to me very recently.

Mr. SIMON. Did you ever see it before very recently?

Mr. WOODNER. No. I haven't seen it. The first time I ever saw it was just the other day.

Mr. SIMON. You never saw it before the other day?

Mr. WOODNER. No, sir.

Mr. SIMON. The Irving Trust Co. advanced \$10,000 on this project didn't they?

Mr. WOODNER. Eventually they advanced approximately \$10 million.

Mr. SIMON. Of course it was Government-insured?

Mr. WOODNER. It was Government-insured.

Mr. SIMON. And the \$10 million was advanced by the Irving Trust Co., subsequent to December 20, 1949, wasn't it?

Mr. WOODNER. I would say most of it was subsequent to that date.

Mr. SIMON. This letter, the first paragraph reads:

Frank Ackerman has called our attention to several points that are indicated by the plans in which we feel should be called to your attention so that you may check and follow them to the end that there will be no delay in making advances during construction on the project.

I will list the following points raised by Mr. Ackerman: (1) that commercial use of some upgrade space will require a hotel permit. As I understand it, you will apply for a hotel permit when the project is ready for occupancy, and the commercial space will not be utilized unless the hotel permit is issued.

Further, an onpremises sale liquor license will be required before the cocktail lounge, main dining room, and similar hotel-type services may be provided. We would appreciate it if you would advise us when you intend to apply for such permit and license and keep us advised of the results of your application.

You say you never saw that letter until a week or so ago?

Mr. WOODNER. No. Probably just a couple of days ago.

Mr. SIMON. A couple of days ago?

Mr. WOODNER. Yes, sir.

Mr. SIMON. You deny it was your intention to get a hotel license?

Mr. WOODNER. Yes.

Mr. SIMON. When you borrowed the money?

Mr. WOODNER. What is the date of that letter?

Mr. SIMON. December 20, 1949.

The fact is also, isn't it, that you invested some \$700,000 in carpeting and other hotel facilities before you got a hotel permit?

Mr. WOODNER. No, sir.

Mr. SIMON. Didn't you?

Mr. WOODNER. The permit was issued after the building was completed. May I return to that letter you have there sir?

Mr. SIMON. Yes, but did you invest \$700,000 in a hotel permit?

Mr. WOODNER. After we had the authority to have a certain number of transient rooms.

Mr. SIMON. Only after the authority?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Oh. Well, now, I have a letter before me from Loy Anderson.

Mr. WOODNER. May I return?

Mr. SIMON. Yes. I would like to read the balance of this. Who was Loy Anderson?

Mr. WOODNER. Loy Anderson was our closing attorney, and a representative of the mortgagee, who has the mortgage on the Rock Creek.

Mr. SIMON. And he is 1 of the 5 former FHA employees who were working for you?

Mr. WOODNER. Well, he had been—before I ever came to Washington he had left the FHA.

Mr. SIMON. He was 1 of the 5 former FHA employees whom you had working for you.

Mr. WOODNER. He was a private attorney. He was engaged by us. Yes.

Mr. SIMON. He wrote a letter, didn't he, on August 1, 1952, to the district director, Thomas C. Barringer, which says:

I am acting as attorney for the sponsor in the closing of this case and my company is to be the servicing mortgagee. Therefore, Mr. Woodner has asked me to assist in working out a solution to the problem presented in utilizing the commercial space built in the subject project.

Was he authorized?

Mr. WOODNER. What is that, sir?

Mr. SIMON. Was he so authorized by you?

Mr. WOODNER. To write this letter?

Mr. SIMON. Yes, and to assist in working out the solution to the problem presented in utilizing the commercial space.

Mr. WOODNER. Yes, for the interests of his mortgagee and we were involved in the thing, too.

Mr. SIMON. He was working for you in this; wasn't he?

Mr. WOODNER. He was working equally for the mortgagee and ourselves, and so far has received no compensation for it.

Mr. SIMON. But he was working for you as well?

Mr. WOODNER. He had closed a job for me and I consulted him.

Mr. SIMON. Did you authorize him to write this letter?

Mr. WOODNER. Yes, sir.

Mr. SIMON. All right.

As a matter of fact, you gave him more authority that following week; didn't you?

Mr. WOODNER. Well, let's continue, sir.

Mr. SIMON. The letter goes on:

In your letter of June 23, to Mr. Wallace Holliday—

and Wallace Holliday is one of your employees?

Mr. WOODNER. Yes, sir.

Mr. SIMON. And another former FHA employee?

Mr. WOODNER. Draftsman; yes.

Mr. SIMON (reading):

In your letter of June 23, to Mr. Wallace Holliday of the Jonathan Woodner Co. you stated that the administration would assist Woodner Co. in appealing to the District government for relief to make it possible to use the commercial space in the building. You further suggested your office would give any other assistance you could to help put the project on a sound basis, other than the method proposed by Mr. Woodner's letter of May 29.

Since June 23, representatives of the Jonathan Woodner Co. and FHA have made further efforts to secure relief from the District government but without success. The present situation presents a very serious problem to both the sponsors and the FHA. We are extremely desirous of finding a satisfactory solution at an early date, and wondering if you have any further suggestions. Neither the FHA nor the sponsor would have permitted the commercial construction had there been any reason to believe that usage of such space would violate zoning regulations. Further, such commercial space was deemed necessary and desirable by both FHA and the sponsors, and cost approximately \$700,000, exclusive of garage space.

Is that right?

Mr. WOODNER. That is right.

Mr. SIMON. That is right, so that you had spent \$700,000 before you got the hotel permit for the commercial space?

Mr. WOODNER. We are talking now about the construction of the stores, the construction of store space and the dining-room space. I am not talking about the furnishings, sir.

Mr. SIMON. But you did spend \$700,000 on facilities that could only be used with a hotel permit before you got the—

Mr. WOODNER. On the construction of the space.

Mr. SIMON. Is what I have said right?

Mr. WOODNER. I would say so; yes. Wait a minute, sir. Maybe I misunderstood you.

(Conference between Mr. Williamson and Mr. Woodner.)

Mr. SIMON. Is that right?

Mr. WOODNER. I didn't quite understand you. All of these items could be used in an apartment building.

Mr. SIMON. Is Mr. Loy Anderson wrong then?

Mr. WOODNER. When he says what?

Mr. SIMON. He says, further such commercial space was deemed necessary and desirable by both FHA and the sponsors and costs approximately \$700,000 inclusive of ground space.

Mr. WOODNER. There are commercial spaces in the apartments for the benefit of the tenants.

Mr. SIMON. But you could not use it without a hotel permit; could you?

Mr. WOODNER. It could have been rezoned.

Mr. SIMON. The District refused to rezone it; didn't they?

Mr. WOODNER. Yes, sir.

Mr. SIMON. And Barringer refused to give you permission to turn it into a hotel; didn't he?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Barringer turned you down?

Mr. WOODNER. Yes, sir.

Mr. SIMON. He was the District director?

Mr. WOODNER. Yes, sir.

Mr. SIMON. And then on July 22, Barringer turned you down in May; didn't he?

Mr. WOODNER. Yes, sir.

Mr. SIMON. On July 22, you wrote a letter to Loy Anderson, directing him to hire the recently resigned FHA Commissioner?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Mr. Richards resigned on June 30, 1952?

Mr. WOODNER. Yes, sir.

Mr. SIMON. And you hired him on July 22, 1952?

Mr. WOODNER. Yes, sir.

Mr. SIMON. And the deal was that you would pay him \$5,000 as a retainer, and if he got the permission, an extra \$5,000? Is that right?

Mr. WOODNER. Yes; a total of \$10,000.

Mr. SIMON. A total of \$10,000. Within 30 days Clyde Powell reversed Barringer and gave you permission to turn 250 units into a hotel; is that right?

Mr. WOODNER. This was not Clyde Powell's decision. As a matter of fact, Clyde Powell was opposed to us.

Mr. SIMON. Let me read you his letter on August 22, 1952.

Mr. WOODNER. I know he signed the letter sir, and I know the letter thoroughly.

Mr. SIMON. Clyde Powell signed it; didn't he?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Clyde Powell's letter of August 22, 1952, reversed Barringer; didn't it?

Mr. WOODNER. Yes, but he was the instrument for sending the letter to me, even though he signed it.

Mr. SIMON. You mean somebody you hired and Powell told him to do it.

Mr. WOODNER. No, sir.

Mr. SIMON. Richards had been Powell's boss up until 22 days earlier; hadn't he?

Mr. WOODNER. At the time this was signed, Mr. Richard Greene—not Mr. Richard Greene, Mr. Greene was Commissioner at the time.

Mr. SIMON. Twenty-two days before you hired Richards, he had been Powell's boss; hadn't he?

Mr. WOODNER. I believe that is true.

Mr. SIMON. And he got the \$10,000 because he got this decision of Barringer's reversed? Isn't that true also?

Mr. WOODNER. He was paid the \$10,000 because we were given permission by the FHA for this permission.

Mr. SIMON. That meant reversing Barringer's decision; didn't it?

Mr. WOODNER. The Commissioner of the FHA reversed—the Commissioner of the FHA along with Mr. Fitzpatrick, Deputy Commissioner of HHFA, the General Counsel of the FHA, I believe the Zone Commissioner, sat in on it, Mr. Barringer, the District Director sat in on it, Mr. Tom Gray, one of the assistants to Clyde Powell sat on it, and Clyde Powell sat in on it, and I can say now that most of the discussion took place between the Commissioner, Mr. Greene, and Mr. Fitzpatrick, and at that meeting, I wrote a letter—

The CHAIRMAN. Why did you hire Richards?

Mr. WOODNER. Because Mr. Richards had—first of all, Mr. Richards went into business.

The CHAIRMAN. We understand that. He left FHA and went into business, and sent you a circular as he did a lot of people saying, "I am out, I have a lot of experience in FHA and I know everybody," and you immediately gave him \$10,000.

Mr. WOODNER. I didn't immediately give him \$10,000.

The CHAIRMAN. You made a contract to give him \$10,000?

Mr. WOODNER. That is right.

The CHAIRMAN. What did he do for the \$10,000, please?

Mr. WOODNER. He advised us that his best knowledge, that the best course and judgment, and reasons why the issuing of this permit would be for the best interests of the FHA, ourselves—

Mr. SIMON. \$5,000 was contingent upon getting Barringer reversed. Isn't that true?

(Conference between Mr. Williamson and Mr. Woodner.)

The CHAIRMAN. You gave him \$5,000 and entered into a contract with him and said, "I will give you another \$5,000 if you get this permit through."

Mr. SIMON. Isn't that right?

Mr. WOODNER. We gave him two \$5,000 checks.

The CHAIRMAN. Isn't the statement I made true? The contract you made with Richards, you said, "We will give you \$5,000 now, we will give you another \$5,000 if you get this permit through." Is that right?

Mr. WOODNER. That is correct. That is probably a usual arrangement with people who are attempting to do something.

Mr. SIMON. Is that the usual arrangement?

Mr. WOODNER. Well, I know it happens very often with attorneys.

Mr. SIMON. There is one point I am personally very interested in and I hope you can help us with. Something like \$70,000 went from your company to Chaite. He only accounts for \$55,000 of it. Is it possible that any of the other money found its way to Mr. Powell?

Mr. WOODNER. Absolutely not that I know of.

Mr. SIMON. Mr. Chaite and Mr. Powell were pretty close friends, weren't they?

Mr. WOODNER. They had worked with each other for a long time, I believe.

Mr. SIMON. Mr. Chaite is not able to recall, but the telephone records at the Sheraton Park Hotel show five telephone calls from Powell's apartment to Mr. Chaite's home in 1953, in the 1 year, and there are others in prior years I understand. Do you know what those telephone calls could have been?

Mr. WOODNER. No, sir.

Mr. SIMON. Anything to do with Woodner business?

Mr. WOODNER. I don't believe so, sir. I am pretty certain, sir, because Chaite wasn't involved in our FHA matters.

Mr. SIMON. You got better than \$30 million worth of FHA commitments from Mr. — that had to be approved by Clyde Powell, and there is a lot of checks drawn to cash, with no explanations for it, such as promotion. Is it possible that any of that money found its way to Mr. Powell?

Mr. WOODNER. Absolutely not, sir.

Mr. SIMON. You say unequivocally that no part of the funds of any of those checks that you can't account for now, and no part of those ever found their way to Mr. Powell?

Mr. WOODNER. I never gave Mr. Powell any money.

Mr. SIMON. That wasn't my question. My question is whether you can say unequivocally that no part of the proceeds of these checks that we have been discussing that you can't account for the proceeds of, that no part of those proceeds ever found their way to Clyde Powell?

Mr. WOODNER. Absolutely not as far as I know.

The CHAIRMAN. Through a second party that received the check?

Mr. WOODNER. I would not know what a second party would do, but I know nothing was ever given to Clyde Powell to my knowledge, direction, or any other manner.

Mr. SIMON. You knew nothing about any of these funds ever reaching Clyde Powell no matter how they got there?

Mr. WOODNER. I do not know, sir.

Mr. SIMON. You know nothing about it?

Mr. WOODNER. I do not know, sir.

May I go back to this hotel aspect, sir?

The CHAIRMAN. What is that?

Mr. WOODNER. I wanted to interject something here.

The CHAIRMAN. You may proceed, yes.

Mr. WOODNER. A commitment and start of construction was on October 6, 1949, which preceded the first indication that was necessary for hotel facilities by 2½ months.

Mr. SIMON. Precedes the first written record.

Mr. WOODNER. It is the first time that anybody in my establishment knew and I didn't know that until much later, because at that time I had already gotten into my marital affairs.

Mr. SIMON. That is not a fair inference, Mr. Woodner, because in this letter of December 20, the Irving Trust Co. man assumes you are going to do this, which means somebody must have discussed it with him prior to that date.

Mr. WOODNER. I cannot agree to that inference whatsoever.

Mr. SIMON. Who is Frank Ackerman?

Mr. WOODNER. Frank Ackerman is an architect for the Irving Trust Co.

Mr. SIMON. He says on December 20 that Frank Ackerman has called to our attention several points—

Mr. WOODNER. That is 2½ months after we closed the job.

Mr. SIMON. Certainly the fair inference in this letter is they talked about it before.

Mr. WOODNER. What is that, sir?

Mr. SIMON. Certainly the fair inference in this letter is they talked about it before.

Mr. WOODNER. I wouldn't say so, sir.

Mr. SIMON. Did you write Irving Trust Co. a letter in response to this, saying, "You are just all wrong, we are not going to have a hotel"?

Mr. WOODNER. No, first this letter was written by Mr. Holiday who was in charge of our office at that time and at the time, or I know when he first heard of it, I don't believe there is an absolute firm policy of the FHA contrary to this.

Mr. SIMON. What about these match books that say, "The Woodner Hotel" on them, when were they printed?

Mr. WOODNER. I don't know, 6 or 8 months ago.

Mr. SIMON. Six or eight months ago?

Mr. WOODNER. I suppose.

Mr. SIMON. In 1953?

Mr. WOODNER. Yes, and it is contrary to the letter which I indicated. The building is known as the Woodner and they should not be used with the word "hotel."

Mr. SIMON. One of the qualifications in Clyde Powell's letter of August 22, giving you permission to make a hotel out of part of it was you should not use the word "hotel."

Mr. WOODNER. That is right. That is an error. I called it to their attention.

The CHAIRMAN. Our next witness will be Mr. Chaite.

Our next and last witness for today will be Mr. Chaite.

You were a witness, were you not, yesterday?

Mr. CHAITE. Yes, sir.

The CHAIRMAN. Let me swear you in again. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CHAITE. I do.

#### TESTIMONY OF ARTHUR M. CHAITE, WASHINGTON, D. C.—Resumed

The CHAIRMAN. Thank you. You may proceed, Mr. Simon.

Mr. SIMON. Would you give your name and address, please?

Mr. CHAITE. Arthur M. Chaite, 1523 L Street NW., Washington, D. C.

Mr. SIMON. We asked you yesterday to be able to give us today a complete list of all the checks you ever got from Woodner or the Woodner companies. Are you able to do that at this time?

Mr. CHAITE. Yes, sir.

Mr. SIMON. What is that list?

Mr. CHAITE. 1950 I received a check for \$5,000, on June 15, I believe. On October 7, I received a check for \$15,000, and on December 6, a check for \$20,000.

Mr. SIMON. How about 1951?

Mr. CHAITE. Coming right up. February 21, \$10,000.

March 16, \$10,000.

March 16—these are my deposit slips. I don't know the exact dates of the checks themselves.

Mr. SIMON. Those are the dates you deposited them?

Mr. CHAITE. Yes. March 16, \$10,000.

July 3, \$5,000.

October 19, \$5,000.

October 24, \$5,000.

Mr. SIMON. A total of \$26,000 in 1951, and \$40,000 in 1950?

Mr. CHAITE. I think so.

Mr. SIMON. Mr. Woodner's records show that on October 12, 1950—

Mr. CHAITE. Are you interested in 1952 also?

Mr. SIMON. Yes.

Mr. CHAITE. On April 14, \$2,000.

On September 4, I received a check for \$2,500, which I returned to Jonathan Woodner Co.

Mr. SIMON. Why was that?

Mr. CHAITE. Because I wasn't satisfied with the amount of the fee.

Mr. SIMON. Any others?

Mr. CHAITE. That is all.

Mr. SIMON. The books out there show that on October 12, 1940—1950, excuse me—you received a check, or I shouldn't say you received, but on October 12, 1950, a check was issued to Arthur M. Chaite, for \$5,796.40, which bears your endorsement and bears the endorsement of J. R. Stuckey, who Mr. Woodner has just identified as one of his employees. Did you receive that check?

Mr. CHAITE. No, sir.

Mr. SIMON. You never received it?

The CHAIRMAN. Will you talk into the microphone, please?

Mr. CHAITE. Certainly.

The CHAIRMAN. Thank you, sir.

Mr. CHAITE. I never received it in the sense of the word that I got the five-thousand-seven-hundred-some-odd dollars you are talking about.

Mr. SIMON. Did you endorse the check?

Mr. CHAITE. If my signature is there, I did. I would like to see the check.

Mr. SIMON. We don't have it.

The CHAIRMAN. It is missing.

Mr. CHAITE. I am sorry. I have no recollection.

The CHAIRMAN. I beg pardon. It is not missing.

Mr. SIMON. Do you know whether you ever did endorse that check for \$5,796 and if so, why J. R. Stuckey should then have endorsed it?

Mr. CHAITE. No, Mr. Counsel.

Mr. SIMON. You say unequivocally you didn't get it, though?

Mr. CHAITE. Yes, sir.

Mr. SIMON. Can you give us any explanation of why Woodner should have issued a check of that amount to you and you not have received the proceeds?

Mr. CHAITE. No, sir.

Mr. SIMON. Do you know J. R. Stuckey?

Mr. CHAITE. Yes, sir.

Mr. SIMON. Is that a man or a woman?

Mr. CHAITE. A man.

Mr. SIMON. What is his first name?

Mr. CHAITE. I don't know.

Mr. SIMON. Do you know any reason why—did you ever endorse a check to your order and give it to J. R. Stuckey?

Mr. CHAITE. I have no recollection of that.

Mr. SIMON. My question is whether you ever did it.

Mr. CHAITE. I couldn't tell.

Mr. SIMON. You can't tell?

Mr. CHAITE. That is right.

The CHAIRMAN. Are you prepared to say you didn't?

Mr. CHAITE. I have no recollection on it.

The CHAIRMAN. Would you recognize your signature if you saw it?

Mr. CHAITE. Yes, sir.

Mr. SIMON. Mr. Delmore, is that check available out there?

Mr. DELMORE. Yes, sir; it is.

The CHAIRMAN. Will you have the check here at 10 o'clock tomorrow morning, and Mr. Chaite, will you be here at 10 o'clock tomorrow morning?

Mr. CHAITE. Friday.

The CHAIRMAN. Ten o'clock Friday to recognize your signature to see whether it is a forgery or not.

Mr. CHAITE. Right.

Mr. SIMON. You know nothing about that transaction?

Mr. CHAITE. No recollection of it at all.

Mr. SIMON. Going back to this \$15,000 that you got in 1946. what about that?

Mr. CHAITE. Well, my recollection to that, Mr. Counsel, is that I had invited Mr. Woodner to join a group in purchasing a lumber mill and dimension plant and a stock of lumber in West Virginia, and Mr. Woodner gave me a check for \$15,000 to be used, if necessary, in the purchase of that plant. That check was not necessary, and I returned that check to Mr. Woodner.

Mr. SIMON. You say you never cashed that check?

Mr. CHAITE. Right.

Mr. SIMON. It was never cashed?

Mr. CHAITE. Right.

Mr. SIMON. Never deposited?

Mr. CHAITE. No, sir.

Mr. SIMON. On December 31, 1950, did he give you a check for \$500?

Mr. CHAITE. I have no deposit of that amount.

Mr. SIMON. That wasn't my question. My question was whether on December 31, 1950, he gave you a check for that amount.

Mr. CHAITE. I would have no knowledge of that without a deposit or a memorandum in my file what it was for.

Mr. SIMON. On March 31, 19—

The CHAIRMAN. Will you get that \$500 check, too, Mr. G. A. O., and bring that canceled check in, too, about 10 o'clock Friday? If you have any trouble getting these, let me know and we will get a subpoena for these specific checks?

Mr. SIMON. On March 31, 1951, did you get a check from Woodner for \$10,000? The check is dated March 15, 1951, and it is check No. A-9073.

Mr. CHAITE. Yes. I deposited it March 16, 1951.

Mr. SIMON. The same day did you get a check for \$500 dated March 2, check A-5260?

Mr. CHAITE. What day was that?

Mr. SIMON. Dated March 2, for \$500, check A-5260.

Mr. CHAITE. 1951?

Mr. SIMON. That is right.

Mr. CHAITE. Yes. On March 1, I got \$500

Mr. SIMON. On March 1. The check is dated March 2.

Mr. CHAITE. I put it in my February cash account as \$500.

Mr. SIMON. You didn't give us that check before.

Mr. CHAITE. That check went to reimburse my traveling account for the month of February. It was a balance left of three-hundred-some-odd-dollars due.

Mr. SIMON. Then you did receive that \$500?

Mr. CHAITE. Oh, yes.

Mr. SIMON. Why didn't you tell us about that when we asked you to give us all the checks you had from him?

Mr. CHAITE. I was reading from the checks I deposited. This is a check I cashed to reimburse me for travel expenses.

Mr. SIMON. On October 18 did you get another check for \$500?

Mr. CHAITE. 1951?

Mr. SIMON. Yes; October 18, 1951.

Mr. CHAITE. I got a check for \$500 and 52 cents, with a reimbursement for all the expense vouchers for that month.

Mr. SIMON. They have charged your account with \$5,000. The record of the note is:

To record payment by New York to Arthur M. Chaite, February 19, 1951. Type of disbursement unknown.

Do you know anything about that \$5,000?

Mr. CHAITE. February 19 when?

Mr. SIMON. No; December 31, 1952.

Mr. CHAITE. I have no record of that at all, sir.

Mr. SIMON. Did you get any checks from their New York office?

Mr. CHAITE. I can't designate which of these checks are from New York or Washington, but I have no record of a \$5,000 check in December of 1952.

Mr. SIMON. It might have been January of 1953, because this entry was made December 31, 1952.

Mr. CHAITE. I don't think I received any more funds from the Woodner organization or anyone connected with the Woodner after that April check of \$2,000 in 1952.

Mr. SIMON. Can you give us any explanation of why on December 31, 1952, they should make an entry in their books to record a \$5,000 payment made by their New York office to you?

Mr. CHAITE. No, sir.

Mr. SIMON. On October 11, 1951, there was a check issued to you for \$10,000, for professional services. Did you get that check, S-3460?

Mr. CHAITE. Did you say October 11, 1951?

Mr. SIMON. That is right.

Mr. CHAITE. The only deposits I have for October 1951, are \$5,000 October 19, \$5,000 October 24.

Mr. SIMON. They issued checks to you on those dates for those amounts. Those are checks 14046 and 14047. There is a third check for \$10,000, check S-3460, a \$10,000 check dated October 11.

Mr. CHAITE. I never got it.

Mr. SIMON. Mr. Delmore, could you bring that check with you Friday morning, too?

Mr. DELMORE. Yes, sir.

Mr. SIMON. Thank you, sir.

Senator BEALL. I have no questions.

Mr. SIMON. You will be back Friday morning?

Mr. CHAITE. You really need me?

Mr. SIMON. We want you to identify these 2 checks for \$15,000.

Mr. CHAITE. All right.

Senator BEALL. That will be all. The committee now stands in recess until 10 a. m. tomorrow morning.

(Whereupon, at 4:25 p. m., the committee recessed to reconvene at 10 a. m. the following day, Thursday, October 7, 1954.)



# FHA INVESTIGATION

THURSDAY, OCTOBER 7, 1954

UNITED STATES SENATE,  
SENATE BANKING AND CURRENCY COMMITTEE,  
Washington, D. C.

The committee met, pursuant to recess, at 10:10 a. m., Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart and Beall.

Also present: William Simon, general counsel; T. T. Kenney, assistant general counsel; and Clarence M. Dinkins, assistant counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order. The first witness will be Mr. T. Coleman Andrews. You will have to be sworn, Mr. Andrews.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

## TESTIMONY OF T. COLEMAN ANDREWS, COMMISSIONER OF INTERNAL REVENUE

Mr. ANDREWS. I do.

The CHAIRMAN. Mr. Andrews, you are the Commissioner of Internal Revenue?

Mr. ANDREWS. That is right, sir.

The CHAIRMAN. What is your correct title?

Mr. ANDREWS. I am the Commissioner of Internal Revenue.

The CHAIRMAN. And you have been that since when?

Mr. ANDREWS. Since February 4, 1953.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Andrews, as you know, this inquiry relates to the activities of the Federal Housing Administration. We have found from 3 months of hearings that builders dealing in FHA-insured mortgages apparently had 2 objectives in mind. One was to end up with some cash on hand after the project was completed and secondly to arrange their affairs in such a manner that they were able to retain the cash after the requirements of the income-tax laws. Apparently it was quite obvious that it didn't help much to make two or three or four million dollars in 1 year, if one had to pay normal income taxes on it, because the rates being 75 or 80 percent at that level, wouldn't leave much.

What we would like to discuss with you is the second aspect of the two-pronged problem the builder had of making the money and retaining it after the requirements of the income-tax law.

There are three areas where we have found the income-tax laws played a part in this picture. The first is builders who would create a sponsoring corporation to get a section 608 loan and when the project was completed would have substantial funds remaining in the sponsoring corporation after paying all their debts, excess mortgage proceeds after paying all the debts.

One of the patterns we found is that they would then hire an appraiser who would go out and appraise the property at a price or a figure far in excess of what it cost to build it and usually just high enough to cover the amount of cash that they had in the bank and based on that appraisal they would then create surplus in the corporation and would then distribute the cash that they had in the bank as a distribution of capital, rather than a dividend of earnings, and claim it as a long-term capital gain.

One of the most significant cases we had was the Shirley-Duke case just outside of the District in Virginia, where three men each put up \$6,000 for a \$12.5 million project. They immediately went on the payroll at \$20,000 a year apiece, got their money back in a matter of weeks and when the building was completed they had \$2¼ million of mortgage money left over, which they distributed to themselves as a long-term capital gain.

There were 6 corporations and, as I understand it, on 1 of the corporations they went to your predecessor and obtained a ruling that the distribution of that money would be a long-term capital gain, taxable only at the capital gains rate of then 25 percent and now 26 percent. I understand they did not obtain such a ruling for the other 5 corporations and that you have taken a different view than your predecessor as to the 5 corporations where they didn't get a written ruling. Is that the fact, Mr. Andrews?

Mr. ANDREWS. That is right.

Mr. SIMON. Could you tell us, Mr. Andrews, why you think that the ruling your predecessor gave as to the 1 corporation should not be followed as to the other 5?

Mr. ANDREWS. Well, yes; I can tell you that. It might perhaps be better if I explained why we don't think the ruling should be reversed as to the first one. So far as we know, that ruling given in the first instance was given in good faith and the taxpayer relied upon it. In such situations, we usually honor a ruling, even though it might be disadvantageous to do so. If, of course, we had any reason to believe that the ruling was not obtained in good faith, then the situation would be different. However, it has long been the policy of the Revenue Service—and I think a proper one—that a ruling of that type ought not to be construed except as to the particular case with regard to which it is given and especially in a situation where there later becomes doubt as to the technical validity of the ruling.

Now, when we took a look at this situation, we just did not think as a matter of good accounting or good tax administration, that it was proper to regard this type of income as a capital gain and therefore we said in the Gross case that we think we ought to tax this income—the Gross case, incidentally, is the one in Long Island, as I recall it, and the one which is in the Tax Court—we said, "We think this income should be taxed at normal rates, as normal income," and we proceeded on that basis and as you know the case is before the Tax Court now for decision on that point.

Now, as to these other 5 companies owned by the people who got the favorable ruling in the Shirley-Duke case we simply feel that the ruling ought not to apply to the other 5 cases, that the attitude or feeling of the Revenue Service that this is not a capital gains transaction but an ordinary income transaction should apply to those 5 cases.

Mr. SIMON. The Gross case that you referred to is the case involving the Gross-Morton properties in Glen Oaks, Long Island, where the testimony before this committee shows that \$4½ million of the mortgage proceeds remained in the sponsoring corporations after they completed the building, and was distributed to the stockholders as a long-term capital gain?

Mr. ANDREWS. That is right.

Mr. SIMON. The tax rates being what they are, if your position prevails in the Tax Court, I assume the Government will recover a very substantial portion of that \$4½ million profit.

Mr. ANDREWS. That is right, sir.

Mr. SIMON. Is it your intention, Mr. Commissioner, to apply that ruling to all of the section 608 cases in which such distributions were made by sponsoring corporations, other than those in which a specific ruling was obtained by the taxpayer from your predecessor?

Mr. ANDREWS. Yes; it is.

The CHAIRMAN. Even on those rulings that were obtained prior, you certainly are going to test them to see whether they were made in good faith, aren't you?

Mr. ANDREWS. Oh, yes; yes, sir.

The CHAIRMAN. You don't just take them on their face?

Mr. ANDREWS. Oh, no.

The CHAIRMAN. You go behind and check into and see whether or not they were made in good faith?

Mr. ANDREWS. I don't know of but the one ruling, though, as I recall it. I understand there were actually three rulings.

The CHAIRMAN. I am thinking in terms now, since we have exposed and brought out and thrown considerable light on many, many, many of these cases—and, of course, in every instance you have had men from your Department sitting in at all our public and executive sessions, and we are turning over to you, of course, every bit of information that we have picked up as a result of this information—you are going to look behind the curtains on all of them, are you not?

Mr. ANDREWS. Yes, sir.

Of course, that is exactly what was in my mind when I first brought to public attention the fact that these windfall profits had been gained by these companies.

The CHAIRMAN. From now on, you are going to bring that to the attention of this committee, because this committee—had you given this committee the same information that you gave another committee a year ago, I am sure we would have gotten started on this investigation a long time before we did.

Mr. ANDREWS. Very frankly on that, Senator, I hoped you would pick me up on that because I knew you didn't feel too good about my having given that information to somebody else.

The CHAIRMAN. The committee that has had 100 percent jurisdiction over housing, there is no question about it in anybody's mind, the information was withheld from us or at least we knew nothing about it.

Mr. ANDREWS. Well, you know, Senator, when you come into Washington——

The CHAIRMAN. I am sure it was an oversight on your part but I just want to make the public record clear that we should have had the information much quicker than we received it.

Mr. ANDREWS. When you come into Washington now it takes a long time to find out who is responsible for what.

The CHAIRMAN. And, unfortunately, the other committee never once turned over any information to this committee, and even to date haven't turned over any information to this committee.

Mr. ANDREWS. Well, we didn't go to that committee, you understand. We asked one of the attachés of that committee if it was a matter in which they would be interested and they said they were and then they asked for the information and we gave it to them.

The CHAIRMAN. Well, I think they are interested. There is no question but what they do have an interest in it, did have an interest in it, and still have an interest.

Mr. ANDREWS. If there are any apologies due this committee, I want to make them at this time.

The CHAIRMAN. It was going on for a period of a year, however, and we in this committee knew nothing about it and unfortunately the other committee, knowing, of course, that we had 100 percent jurisdiction, did not turn over the information to us.

Mr. SIMON. Earlier this year you gave the President a list of 1,150 section 608 cases, approximately, in which the sponsoring corporations had declared dividends out of the proceeds of the mortgage as shown by their tax returns, and those cases, of course, were subsequently given to this committee by the President.

Do I assume correctly that if you prevail in your position in the Gross-Morton case, that that rule of tax liability will be applied in each of the cases on that list of some 1,150 cases?

Mr. ANDREWS. It will be applied to every case. Those and any others that might exist in addition to those. That was our first list. As I recall it, the ultimate list was probably even larger than that, and that rule will be applied to every case in which there was a distribution under the circumstances that you mentioned when you brought this phase of the matter up.

Mr. SIMON. And of the 7,000 section 608 cases that there were, you say there were more than 1,150 that are on that list, in which this tax situation exists?

Mr. ANDREWS. As I recall it, the ultimate list did run beyond that, and in every one of those cases, the outcome of the Gross case will be applied to them.

Mr. SIMON. Now, sir, those cases include only the cases in which the sponsoring corporation had surplus funds out of mortgage, and distribution was made, which was taken as a long-term capital gain.

We now have a second group of cases in which no tax whatever was paid on the windfall profits. The testimony before this committee has developed this pattern in those cases.

Just as an example of what happened in New Orleans there was a company called Shelby Construction Co. Shelby created 11 subsidiaries, each with a capital stock of \$1,000. These 11 corporations, with \$1,000 of capital stock each, applied to the Federal Government for mortgage commitments which they were issued, totaling \$10,800,000.

The \$1,000 capital corporations then entered into a contract with their own parent corporation, Shelby, to construct the buildings at amounts which consumed the entire mortgage proceeds so that when the buildings were built, the \$1,000 corporations had no assets left other than the real estate, and they were the only corporations that had signed the mortgage. Nobody else was liable to repay the mortgage. The excess of mortgage proceeds over costs resided in the parent corporation, Shelby, and there is a dispute as to how much that was. The company says it was \$1,700,000. We think it was \$2.5 million, and FHA thinks it was \$3.5 million but regardless of which figure it is it is at least \$1,700,000.

Shelby then filed a consolidated tax return for the subsidiaries and the parent corporation, and took the position that because there was purely an intracompany transaction there was no tax due on the excess profit that the parent corporation made on its dealings with the subsidiary.

A short time later the buildings weren't going so well so Shelby cut loose the subsidiary corporation by selling the stock in the 11 corporations which had \$10,800,000 of Government mortgages, they sold the stock for \$5,000 cash, and a note for another \$110,000, which was later paid out of the income.

The subsidiary corporations went into default and the United States is now foreclosing on the mortgages. But, of course, the company that has the cash didn't sign the mortgages. Now, that cash, as I said a moment ago—there was no tax paid initially because they treated it as an intracompany transaction—it still remains in the company. They have not distributed it as dividends. However, they have used that money for every purpose that it could have been used for, had they distributed it. For example, one of the officers of the company built himself a \$350,000 home. He had paid no dividends to himself—and only a modest salary but the corporation built the house for him and charged it to his account on the books of the company. They have used that extra cash to loan it to other corporations in which they were interested, loaning it at very modest sums of interest and thereby getting the full use of this money but without paying any income tax on it at all.

Is that wholly within the present tax laws, Mr. Commissioner, or can something be done about that?

Mr. ANDREWS. Well, that is a long question but let's see if we can break it down.

The CHAIRMAN. The reason we are asking these questions is because the public, the people who are vitally interested, repeatedly ask of us, are we going to be able to get any of this money back?

That is about the first question that the average taxpayer asks. Are we going to be able to get any of this money back? Now, of course, we can't get it back unless we can do so legally. If they haven't violated some law there is nothing that can be done.

Mr. ANDREWS. As a tax commissioner, I am interested in that, too, because if there is any to be gotten back, I want it.

But, first, let me say this: I think that it would be bad policy for us to discuss an individual case in an open session.

Mr. SIMON. Mr. Andrews, I have 3 more examples I wanted to give and maybe if I gave the other 3 examples and you talked about the whole thing in general terms it might be more satisfactory?

Mr. ANDREWS. You mean examples of this particular type?

The CHAIRMAN. Yes; different patterns.

Mr. SIMON. Yes.

Mr. ANDREWS. Why don't you do that, then?

Mr. SIMON. The second example I wanted to give was testimony of a man named Silberman from Baltimore, Sol Silberman, who had a project with a million dollars windfall and the \$1 million resided in the construction company just as in my first example. He then loaned \$300,000 to himself. I am not certain that I remember the interest rate, but I think it was at a half of 1 percent interest. Now, had he distributed the \$300,000 to himself, even a long-term capital gain would have been 26 percent. But by loaning it at a half of 1 percent, if we assume the man were to live 30 years, that would only be 15 percent interest, and since interest is a deduction from his tax liability anyway, from his income for tax purposes, if you assume that he was in the 50-percent tax bracket, he would only be paying 7½ percent over a 30-year period, if he were to live 30 years. And yet even the capital gains route would have been 26 percent. And whether that one was exactly a half a percent or not I don't recall, but there were many cases where the loan was at a half of 1 percent interest, which over the man's lifetime, no matter how long he lived, would be a very modest return or tax liability.

In that same case, he also advanced \$500,000 to a race track in Cleveland, Ohio, that he owned, and, of course, from his standpoint it would make no difference whether he had to invest \$500,000 in the racetrack or whether he invested \$1,000 in the racetrack and this other company loaned or advanced the half million dollars to the racetrack and that is what happened to most of that windfall profit there.

We had another case in Dayton, Ohio, where in the Page Manor project they ended up with about \$900,000 windfall profit. There were four stockholders there. The man who was in charge of the property testified here that each stockholder was loaned \$225,000, which is exactly a quarter of the amount of money they had left over. And unquestioningly he admitted that they had loaned that money to the stockholders instead of declaring a dividend, because they were waiting to see the outcome of the Gross-Morton case and they didn't want to declare a dividend if they had to pay regular income taxes, so they treated it as a loan.

The last example I wanted to give you was, in many cases—largely in the New York area—section 608 projects were built on leaseholds, and the pattern there was, instead of conveying the land to the corporation that made the Government-insured mortgage, the sponsors would buy the land in their own name and as individuals they would own the land, and then they would lease it for 99 years to the corporation that had the Government mortgage, and the Government would then give a \$10 million or, in some cases, a \$25 million mortgage on the leasehold. And, of course, whatever rent the building corporation agreed to pay the owner of the land would be a prior lien on the building, ahead of the Government-insured mortgage. If they ever failed to pay that rent the Government would lose its building and its mortgage, so the Government would really have to see to it that that rent was paid for the 99 years or at least for the 33 years that the Government mortgage extended.

Because of the security of the Government in back of the rent, insurance companies have been willing to loan money on these leaseholds up to 80 and even 90 percent of the FHA appraisal. And we have a case—and I could use the Gross-Morton case as an example—you will recall there that there was \$4,400,000 worth of mortgage proceeds left over out of the building loan, but in that case they got a mortgage on the fee underlying the building for \$1,600,000 more than they paid for the land. I forget what they paid for the land, but I think they paid \$900,000 for the land, and the mortgage was \$2.5 million. So they get \$1,600,000 in cash in their pockets, and they say that that is not taxable, even though the \$1,600,000 is in excess of what the land cost them. Because they say it is only a mortgage, and the money must ultimately be repaid. In most cases it is a 30-year mortgage, and in all the cases that I know of there is no personal liability to ever repay the mortgage. And, of course, the 30 years in most cases extends beyond the probable lifetime of the man getting the money, so he will never pay it back, and he is not personally liable ever to pay it back, and he has the \$1,600,000 in that case, and many, many millions, and they have all taken the position in their tax returns that there is no tax liability at all in that situation.

Now, could you comment on all of those situations generally, sir?

Mr. ANDREWS. As I said, let's approach it generally.

Fortunately, over a period of 40 years of income-tax legislation in this country, there has been an evolution of provisions which have closed a lot of loopholes. There are a lot less loopholes existing than most people think. Obviously the methods followed in these cases that you have indicated undoubtedly are inspired or were inspired by the expectation that there were loopholes that made these profits safe from assessment—at least from the assessment of the high income-tax rates, and at best, or at worst, we will say, made them subject to the capital gains tax.

In the evolution of the income tax, there have been provisions of the law develop which frequently enable the tax authorities to get at transactions which superficially look like they might be perfectly safe from taxation.

Without disclosing exactly what we proposed to do, I want to assure this committee that we think that there are aspects of all these cases that you have mentioned that at least give us something better than a fighting chance to get at this income-tax thing, and we certainly intend to do that.

The CHAIRMAN. Mr. Andrews, you see we have a new situation developing here, or that has developed, as a result of the Government guaranteeing the mortgages on rental houses. On for-sale houses the Government guarantees the mortgage, but the dealer, the real-estate man, the builder, sells the house to a third party and that is the end of it. He no longer owns the property that he created. But in rental housing, he continues to own the property.

The Government guarantees the mortgage. Under the law, supposedly 90 percent of the estimated cost, in the case of section 608. Under the Wherry Act it was 90 percent, and under section 207 I guess it was 80 percent, but under the existing laws we have today, the Federal Government is guaranteeing mortgages on properties that are for rental purposes, where the man owns and continues to own the property.

And yet these builders take the position that if they can talk somebody into a mortgage, where the mortgage proceeds are greater than all their costs, that that money belongs to them somehow, some way, without even paying taxes on it, so I think you have a problem of this committee, the Finance Committee and yourself, as to what to do with that sort of a situation.

But we do want to encourage the building of rental property. We certainly don't want builders to take advantage of the Government. We want them to pay their legitimate taxes. Yet, we don't want to impose upon them something we do not impose upon other people with respect to capital gains, but you have a pattern which has developed here over the last 15 years, a situation rather, that is a little different than anything else we have, either in capital gains taxation, or normal taxation, which I think you can readily see. You have this problem and of course many builders maintain that we are able to get the building for less than the mortgage guaranty because they were efficient builders.

I think in many instances that was true. But the fact remains that they have that money left over when they get finished.

Now, what are you going to do with it? Is it profit? Is it subject to normal taxes? Is it subject to capital gains taxes, or should it remain in the corporation until the mortgage is paid off, and then of course it would be a capital gain.

Mr. ANDREWS. Of course starting at the back of your question, we only become interested when a distribution in fact takes place, or where it in effect takes place so that we can levy the taxes on it.

Certainly as far as we are concerned, our position is firm and very clearly expressed in the Gross case. We claim this is ordinary income and is going to be taxed as such and that is exactly what we propose to do.

Of course we don't know how the Gross case is coming out. We hope it will be in our favor, of course. We think it should be, but the courts might disagree with us.

The CHAIRMAN. Let me say this. You have given us perfect cooperation, here, during this investigation during the past 5 months and I want to congratulate you and the members of your staff that you have assigned to help us. They have been efficient, cooperative, and they have really done a fine job. We want you to know that we appreciate it because as you know, there has been at least one of your men with us every minute since we started this investigation.

They are all excellent fellows.

Mr. ANDREWS. We have covered every hearing you have held wherever it has been held and of course that has been helpful to us, you know.

The CHAIRMAN. And every executive session, too.

Mr. ANDREWS. We have recorded the significant information as to people involved in this thing, and we have already started to work sometime ago on a number of these cases, as you are probably aware.

The CHAIRMAN. Mr. Kenney has a question for you.

Mr. KENNEY. Mr. Andrews, prior to any distribution of the excess mortgage, the attitude of your department is that there is no income earned, is that right?

Mr. ANDREWS. I think generally the answer to that would be yes.

In other words, until there is a distribution, there isn't any income to the stockholder, who is the person involved, here, in the final analysis.

Mr. KENNEY. The builder who receives the surplus mortgage or the excess over cost, continues to pay interest on that amount and that amount must be repaid to the mortgagee, is that not true?

Mr. ANDREWS. Yes.

Mr. KENNEY. Unless he sells the property and then the purchaser, of course, will have to continue the payment and will have to pay the interest and the principal payments to retire the amount of money which has been set up as excess over mortgages. That is correct, is it not?

Mr. ANDREWS. That is right.

Going back to your first question, Mr. Kenney, you spoke only of distribution and of course I directed my answer to that specific question, but obviously there could be, and there was, of course in most cases, a profit to the builder between what he got for the building and what it cost.

You asked about the distribution and I didn't make my answer broad enough to cover the profits of the builders themselves.

Mr. KENNEY. In case the building is constructed by the builder, himself, or a subsidiary company, and this company earns a profit, that profit is taxable at the regular income rate?

Mr. ANDREWS. Ordinarily, yes, sir.

Mr. KENNEY. You stated there was some 1,150 section 608 cases that your department has investigated, or I believe that the builders themselves had set out these excess mortgage amounts, is that true?

Mr. ANDREWS. Let me explain how I got that information because your question is not quite accurate. We did not say that we had investigated all of those cases.

What we did say was that that was a compilation at that time of the cases that we could identify as cases in which it appeared from the tax returns and other information, distributions had been made.

As to those cases to be investigated, many of them had not been, at that time.

Mr. KENNEY. You would be able to make that determination by reason of the claim made by the taxpayer in his return?

Mr. ANDREWS. Either by that or by reference to the files of FHA, which we did have considerable access to in compiling that list.

Mr. KENNEY. Do you have reason to believe there is a considerably larger number than the 1,150 cases that might be similarly involved?

Mr. ANDREWS. I don't know exactly how many, but I remember in one discussion of this matter there was an indication by our staff that there were cases in addition to these 1,100. Just how many there were, I don't know. I didn't ask because I was primarily interested in whether or not we were on top of the whole problem, and I was satisfied that we were.

Mr. KENNEY. Well, do you have reason to believe from the information that has been presented to you, that there may be considerably more than the 1,150 cases?

Mr. ANDREWS. There might be several hundred more, yes.

Mr. KENNEY. You think several hundred would be the limit?

Mr. ANDREWS. I wouldn't want to fix that as a limit. I think I could ascertain that for you, but I wouldn't want to guess, now. It

is too important a matter to guess about. I might be able to clarify that, if I may for just a moment discuss it with our audit chief, Mr. Vaughn.

The CHAIRMAN. You believe there may be many hundreds more than the 1,150?

Mr. ANDREWS. Yes.

The CHAIRMAN. I don't think there is any question but what you are correct. We have only audited one set of books and that is the Woodner set. God knows what would happen if we audited a lot more of them.

Mr. KENNEY. May I make a further request, that you request the witness to make a further investigation and as best he can, to supply us with the additional cases that might be involved in excess of mortgages.

The CHAIRMAN. Yes.

Mr. SIMON. I take it all that Mr. Kenney's question could possibly encompass would be the cases in which the excess mortgage funds remained in the sponsoring corporation, and it could not encompass those cases I gave you in my second category where the surplus funds remained in a construction company owned by the same people.

Mr. ANDREWS. I might have misunderstood Mr. Kenney's question because I interrupted it to refer to windfall cases, generally.

Mr. SIMON. Of course if you were to include in your compilation the cases where the windfall was not in the sponsoring corporation, but in the construction company owned by the same people, I take it you would have to have a thorough audit of every set of books because you couldn't get that from the return, itself.

Mr. ANDREWS. We would have difficulty getting that.

Mr. KENNEY. I agree with General Counsel Simon that there are profits in these building corporations. Those profits will also show up in these income-tax returns and I would be particularly interested in knowing of those profits where they may be excessive.

If you can give us any information along that line, I would appreciate it.

Mr. ANDREWS. Now, what do you mean by excessive?

Mr. KENNEY. Well, within excess of 5 percent.

The CHAIRMAN. I don't know how you can tell whether they are excessive, or not. You can only go by income-tax returns.

Mr. ANDREWS. I am afraid by the time we got that, this committee's report would long since be written.

The CHAIRMAN. You can only get information as they file their income-tax returns.

Mr. KENNEY. You would not have any evidence readily available that would not take too long to compile.

Mr. ANDREWS. Oh, no. This is a nationwide thing and involves all together thousands of cases. I don't anticipate that we could give you a specific and conclusive answer to your question within any short time.

The CHAIRMAN. Each apartment building is a corporation, and builders would have many, many corporations.

Then when you get all through juggling their figures and auditing their books, it is quite a task.

Mr. KENNEY. Now, I think that it would be readily agreed that in our investigation, we have found other cases under other sections of

the National Housing Act, such as the cooperative housing program, section 213, the section 207 program, and perhaps the section 903 and the section 908 program that would also involve excess mortgage amounts.

Do you have any record of those cases, or would that information be readily available from your department?

Mr. ANDREWS. I don't have any in that category in mind and I doubt seriously—well, I would not want to say that it would be readily available in our records. We can only tell from what is in our tax returns.

To find out what those tax returns show, means, first of all, identifying the return of every person, firm, or corporation engaged in these activities to which you refer.

That in itself would be a very considerable task, to attack it as a separate problem. So the answer to your question is that it is not readily available. It is there, to the extent that it is disclosed in the tax returns that we have, but to get the full and complete answer would involve going even beyond that point.

Mr. KENNEY. From your investigation, could you say that the excess of mortgage over cost is peculiar throughout the FHA, or is it limited to maybe a few offices, particularly the larger offices?

Mr. ANDREWS. I haven't made any geographical analysis of it. Certainly it seems to have shown up all over the country. Not in every office, but certainly it is geographically pretty well spread throughout the country.

Mr. KENNEY. Would you say it had shown up in a majority of the FHA offices?

Mr. ANDREWS. I wouldn't want to say yes or no, to that, because I really don't know at the moment.

Mr. SIMON. Mr. Andrews, I want to make sure that the record does not inaccurately state the answer to the question Mr. Kenney asked you about the retirement to repay the mortgages.

I take it you understand that no person is required to repay any of these section 608 mortgages.

Mr. ANDREWS. That is right.

Mr. KENNEY. And the only penalty for failing to repay them is that the Government may foreclose on the properties?

Mr. ANDREWS. Yes.

Mr. KENNEY. But even as late as the day before the Government forecloses, the practice at least has been in the past to permit them to withdraw any cash that remains in the bank, with no liability to repay?

Mr. ANDREWS. Yes.

Mr. SIMON. The third group of questions that I wanted to ask you, to start with—we have been pursuing, as you know, in many cases, what happened to the funds in many of these corporations with the suspicion that they may have gone—and particularly proceeds of checks drawn to cash may have gone to improper sources.

Yesterday we asked Mr. Woodner at some length what happened to the proceeds of a great number of checks drawn to cash in what I would regard as substantial amounts—\$5,000, \$10,000, and \$15,000. In many cases he was unable to tell us what happened to that money.

I take it that while that may be an answer to our query, that from

the tax standpoint you will require in all those cases that they actually prove what happened to the money before you permit them to take the deduction as a business expense?

Mr. ANDREWS. Our rule is, no proof, no deduction.

Mr. SIMON. We had a case in New York that I think you are familiar with, where a lawyer had more than \$1 million worth of checks drawn to cash, and for a very great many of them he could give us no explanation of where the funds went.

Now, we may guess where they went, but from your standpoint he must prove where they went or there is no deduction? Is that right?

Mr. ANDREWS. Generally that is our rule; yes, sir.

Mr. SIMON. I have one more question, sir.

Mr. ANDREWS. I don't want you to construe that answer, now, as any serious qualification, but sometimes you get yourself out on a limb when you answer a question about the taxability of income or the deductibility of expenditures by making a categorical answer to it, but our rule is that the least that could be expected of a taxpayer who wants to make a substantial deduction is that he tell you what he did with the money in order that you may determine whether it was deductible under the law.

Now, of course, you know there is some censure of things that taxpayers have deducted or types of items that are not deductible as a matter of public policy.

For instance, bribery is a crime against society and it is not deductible under any circumstances that I know of.

Mr. SIMON. The point I am trying to make, Mr. Andrews, we have frequently felt frustrated in trying to find out from people where money went, that they kept saying that they couldn't remember, and I take it in all those cases, that we have brought out and brought to your attention, at the minimum, the taxpayer will have a little difficulty in getting the deduction allowed.

Mr. ANDREWS. I can understand that you could be frustrated by that sort of thing, but it doesn't frustrate us. It frustrates the taxpayer because he has to prove it.

Mr. SIMON. We had a case, here, where a builder in the District made a gift of some land to his son and then built a section 608 project on the land for his son, in which there was a substantial amount of mortgaging-out and with the proceeds of that money, he built more properties and thereby created a very substantial estate for his son.

One of the means by which the mortgaging-out was accomplished was the plans, drawings, and specifications for the building were drawn by the builder's construction company, by architects on his payroll. While we have no accurate information as to what the cost of those plans and specifications were, the application for an FHA mortgage listed the estimated cost of the architect's fees as about \$120,000, and then the father's construction company drew these plans and specifications and gave them to the son's company, the architect, being on the payroll of the father's construction company.

Is that a permissible income tax act?

Mr. ANDREWS. It sounds more like a gift-tax problem to me from the way you explain it, and considering the enormous increase in value of land that seems to have taken place in some of these transactions, I would think that a very interesting gift-tax problem is involved in a matter of that kind.

Mr. SIMON. What you are saying is where the father's construction company draws the plans and gives them to the son's rental housing property, that is a gift from the father to the son, the the extent of the value of the plans?

Mr. ANDREWS. You will say give them to his son's company, to the extent that it might have increased the value of the stock of that company, it might be considered a gift, but I was thinking more particularly of the gift of the land.

I assume the land was of small value when he gave it.

Mr. SIMON. In the case I have in mind, a gift-tax return was filed for the gift of the land and a gift-tax paid on the land, but the architectural plans and drawings were given free to the son's company.

Mr. ANDREWS. That would be a question of fact as to what was intended under the law.

The CHAIRMAN. We are turning over all the information so that you may look into it.

Mr. ANDREWS. The information we have gotten here has been very helpful. It has enabled us to organize a good procedure for handling these matters.

The CHAIRMAN. Thank you very much, Mr. Andrews.

We appreciate your testimony. You have been very helpful to us. We appreciate it.

Our next witness will be Mr. Corrigan of the Carmac Corp.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF LEO F. CORRIGAN, PRESIDENT, CARMAC CORP.,  
ACCOMPANIED BY JOHN J. WILSON AND ROGER WHITEFORD,  
COUNSEL**

Mr. CORRIGAN. I do.

The CHAIRMAN. I might say with respect to this witness, the testimony we want from him is purely testimony proving a certain pattern in respect to this whole matter and the disposal of property that was originally owned by the Government.

We are simply putting this witness on to show a pattern with respect to this matter, and that is all.

You may proceed, Mr. Counsel.

Mr. SIMON. Will you give your name and address?

Mr. CORRIGAN. Leo Corrigan, Dallas, Tex.

Mr. SIMON. You are the president of Carmac Corp?

Mr. CORRIGAN. Yes, sir.

Mr. SIMON. I believe you own half the stock?

Mr. CORRIGAN. Yes, sir.

Mr. SIMON. And the other half of the stock is owned by Mr. Fikes?

Mr. CORRIGAN. Leland Fikes, Dallas, Tex.

Mr. SIMON. The Carmac Corp. purchased from the United States Government, did it, the rental properties adjacent to the District known as Fairlington and those in the District known as McLean Gardens?

Mr. CORRIGAN. Yes, sir.

Mr. SIMON. Approximately when was the purchase, Mr. Corrigan?

Mr. CORRIGAN. Do you mean the finish of the purchase?

Mr. SIMON. Yes. When did the sale take place?

Mr. CORRIGAN. At the end of 1946.

Mr. SIMON. At the end of 1946?

Mr. CORRIGAN. Yes.

Mr. SIMON. And the purchase price was approximately—

Mr. CORRIGAN. We entered into the contract at the end of 1946. The transaction was closed at the end of 1947.

Mr. SIMON. And the purchase price was approximately \$42 million?

Mr. CORRIGAN. That is right. \$43,800,000, I think.

Mr. SIMON. Those properties had cost the Government to construct, some 4 or 5 years previously, some \$48 million?

Mr. CORRIGAN. That is approximately correct. We bought them at the depreciated value.

Mr. SIMON. And as I understand it, the capital stock of Carmac Corp. is \$10,000?

Mr. CORRIGAN. That is correct.

Mr. SIMON. Half of which you put up and half of which Mr. Fikes put up?

Mr. CORRIGAN. That is correct.

Mr. SIMON. The contract with the Government provided for a \$4 million downpayment and a mortgage on the balance of some \$38 or \$39 million mortgage for 30 years?

Mr. CORRIGAN. The mortgage was, I think, for 28 years. The payment was \$4 million in cash, which the corporation did borrow, which Fikes and I did guarantee.

Mr. SIMON. The corporation borrowed the \$4 million, you and Mr. Fikes guaranteed it, and the \$38 or \$39 million balance was a 28-year mortgage at 2½ percent interest?

Mr. CORRIGAN. That is correct.

Mr. SIMON. And the interest?

Mr. CORRIGAN. And the interest.

Mr. SIMON. And the income from the property in 4 years paid off the \$4 million loan?

Mr. CORRIGAN. That is approximately correct.

I might say, Mr. Simon, through that period we had the good fortune of having one allowable rent increase of 10 percent through the period and after the regulations went off, we put in force another 10 percent increase which made some of that earning possible.

Mr. SIMON. During the period of time you were negotiating with the Government for the purchase of the property, was the principal Government employee with whom you negotiated, the manager of the Defense Homes Corporation?

Mr. CORRIGAN. William Zeigler, yes, sir.

Mr. SIMON. After the acquisition of the property you hired Mr. Ziegler as your manager?

Mr. CORRIGAN. That I did, sir.

Mr. SIMON. These properties were under the general supervision of the Federal Public Housing Administration?

Mr. CORRIGAN. Yes, sir.

Mr. SIMON. And the General Counsel Federal Public Housing situation was David Elliott?

Mr. CORRIGAN. Yes, sir.

Mr. SIMON. And upon your acquisition of the properties you retained Mr. Cruth as counsel?

Mr. CORRIGAN. Yes.

Mr. SIMON. Why the 2½ percent interest?

Mr. CORRIGAN. Mr. Simon, I might say that we calculated in our offer of purchase that we were overpaying for the properties, and calculated what we could afford to pay at the reduced interest rate.

The CHAIRMAN. In other words, you talked the Government into that?

Mr. CORRIGAN. No; we calculated ourselves and made an offer.

The CHAIRMAN. You are a good businessman. You talked them into it.

Mr. CORRIGAN. Well, Senator, I borrowed money at that period at 3 percent; yes, sir.

The CHAIRMAN. All other FHA mortgages run 4 and 4½ percent. That is my point.

Mr. CORRIGAN. That is correct. That is true.

The CHAIRMAN. And of course the other pattern here is that you hired the people connected with the contract—the negotiators later went to work for you?

Mr. CORRIGAN. That is right. I bought a lot of properties and each time I have attempted to hire the staff.

The CHAIRMAN. I mean it is a pattern we have found generally throughout the country. I am not saying you did anything. I am just trying to be factual.

Mr. WILSON. My name is John J. Wilson. I am a member of the Washington law firm of Whiteford, Hart, Carmody and Wilson. My senior partner Mr. Roger Whiteford and I are here today at the table.

On a previous occasion when I was up here, you were kind enough to let me make a supplemental statement, and I would like to make a few remarks, if you will permit me to do so.

The CHAIRMAN. Of what nature?

Mr. WILSON. Of this nature: I gathered from what you said that Mr. Corrigan was called here to establish a pattern and not because he was being condemned or criticized for what he did. But the impression is left, here, that there might have been something improper in the employment of Mr. Zeigler—

The CHAIRMAN. Let me say this: You are an attorney. The witness has already admitted that everything that was said here was factual and that is all we are interested in. We are not here to condemn or say he did right or wrong.

I said a moment ago that he was a good businessman, and if he could get the interest for 2½ percent—

Mr. WILSON. You are not charging him with any impropriety as to Mr. Zeigler and Mr. Cruth?

The CHAIRMAN. We are proving a pattern here, namely, this gentleman got a 2½ interest rate when everybody else paid 4 and 4½.

No. 2, that the chief people in the negotiations were later hired by him and are now working for him.

Mr. WILSON. There are other facts. For example, the RFC passed upon this transaction ultimately upon the recommendation of a lawyer named Mr. Dyas who wrote an elaborate opinion on the subject.

Mr. Zeigler had nothing whatsoever to do with passing upon the legality or propriety of this transaction.

The CHAIRMAN. And another pattern I wish to create here is that the corporation behind the mortgage that the Government owns, which is about a \$40 million mortgage, that there was only \$10,000 paid in in capital and that is the corporation, and if it doesn't pay out, this gentleman walks away and leaves it and the Government gets it back, because the corporation only has \$10,000.

Mr. WILSON. There are several answers to that, one of which is—

The CHAIRMAN. Just factually—

Mr. WILSON. I understand, but you leave the situation in an unfair position insofar as Mr. Corrigan and Mr. Fikes are concerned.

I want to state this factually if we are discussing facts.

The fact of the matter is that these two gentlemen have put up as collateral their wealth behind this loan. The fact is that these properties have been kept up in excellent condition. The fact is that in 7 years, the Government has received back \$7 million.

The fact is that I dare say the Government hasn't got better collateral for any loan it has made.

The CHAIRMAN. All right; thank you, sir. We appreciate your testimony, but we don't need any speeches this morning.

Thank you, sir.

The CHAIRMAN. Mr. Franklin D. Richards, former FHA Commissioner.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF FRANKLIN D. RICHARDS, WASHINGTON, D. C.

Mr. RICHARDS. I do, sir.

The CHAIRMAN. Will you give your full name to the reporter, please?

Mr. RICHARDS. Franklin D. Richards.

The CHAIRMAN. Your address?

Mr. RICHARDS. 712 Washington Building, Washington, D. C.

The CHAIRMAN. You were the FHA Commissioner from what year to what year?

Mr. RICHARDS. From July 1947 to June 30, 1952.

The CHAIRMAN. June 30, 1952?

Mr. RICHARDS. That is right.

The CHAIRMAN. What were you in FHA, prior to becoming FHA Commissioner?

Mr. RICHARDS. I started in FHA in 1934 as a State director of the State of Utah; I stayed there until 1941, and I became the director for the 11 Western States, Alaska, and Hawaii, until 1945, and then I became an Assistant Commissioner in charge of field operations until I was appointed Commissioner.

The CHAIRMAN. We have, I think, just one question, or one problem in connection with your testimony, and it won't take long, and that is the contract you entered into with the Woodner Corp. and the money they paid you shortly after you resigned.

We just want to know one thing:

For what purpose was this—what did you do for the fee?

You may proceed, Mr. Simon.

Mr. SIMON. Mr. Richards, I believe you resigned as Commissioner of the Federal Housing Administration on June 30, 1952?

Mr. RICHARDS. That is correct.

Mr. SIMON. We have a copy of a letter written, or dated July 22, 1952, from Ian Woodner to H. Loy Anderson, which authorizes Mr. Anderson, who I believe was a former FHA employee, wasn't he—

Mr. RICHARDS. Yes.

Mr. SIMON. To employ you.

I would like to read that letter:

DEAR MR. ANDERSON: This is with further reference to our several conversations with you and others in connection with our attempt to obtain approval of the Federal Housing Administration and the District of Columbia government to certify transient occupancy and commercial space in our Rock Creek Plaza, Inc., project.

We have just been advised by the District of Columbia authorities that under no circumstances will they deviate from their regulations. Therefore, it will be necessary for you to again intercede for us with the Federal Housing Administration to permit the occupancy of a number of our apartments for transient use.

This is to authorize and direct you to represent us before the FHA to obtain the necessary approval and to obtain Mr. Franklin D. Richards to assist you in this effort. Mr. Richards' compensation shall be as follows: \$2,500 herewith—

and the first check is dated July 24, 1952—

with an additional payment of \$2,500 to be made by us to him, on or before September 10, 1952. The total sum of \$5,000 is to be paid as a retainer for this work in connection with this effort. In the event that you are successful in obtaining the approval from the FHA for the occupancy of a sufficient number of accommodations on a transient basis so as to obtain certificates of occupancy from the District of Columbia for the commercial spaces as shown in the drawings approved by the FHA, an additional \$5,000 shall be due and payable on or before October 15, 1952, or 30 days from receipt of such approval, whichever is later.

It is further understood that we will dispose of this loan to a long-term ledger subject to a satisfactory servicing agreement providing for the Metropolitan Mortgage Co. to service this loan at one-eighth of 1 percent.

Was that agreement entered into by you?

Mr. RICHARDS. After that letter was written to Mr. Anderson, he transmitted a copy of it to me and I accepted the agreement with Mr. Anderson to counsel with him and Mr. Woodner and his associates, relative to this matter under discussion.

I did so and we received the fees, as you undoubtedly have a record of the payments, there.

Mr. SIMON. On May 22, 1952, while you were still Federal Housing Commissioner, had Thomas C. Barringer, who was then—and now is—a Director of the District of Columbia Insuring Office, turned down the Woodner request for permission to make part of the property a hotel?

Mr. RICHARDS. I didn't understand your question.

I know the subject matter, but I didn't understand your question.

Mr. SIMON. Had Thomas C. Barringer, the director of the District of Columbia FHA office, turned down that application for permission to turn part of the project into transient rooms, on May 22, 1952?

Mr. RICHARDS. I understand that he did and at the time that he did, however, I am not sure that I was acquainted with that fact.

However, the matter was called to my attention presumably some weeks later than that when Mr. Anderson and Mr. Woodner requested an appointment to see me and my staff to discuss this matter of transient occupancy in the project.

Mr. SIMON. And Mr. Woodner and Mr. Anderson discussed the matter with you while you were still Commissioner?

Mr. RICHARDS. Yes, they did, at that meeting which I referred to. That was some time along in the middle of June, I would say, at which time the staff members, including Mr. Barringer, I think, and others reviewed the matter, and my suggestion at that time, and the conclusion reached at that time was that the staff members should work with the sponsors and with the District of Columbia building officials to see if some satisfactory solution could be worked out.

No decision was reached other than to cooperate to see if a solution could be reached.

Mr. SIMON. And subsequently didn't the District of Columbia people remain adamant, that they wouldn't change their position and by letter of August 22, 1952, the National Office of FHA, in a letter signed by Clyde Powell, overruled Barringer and permitted 250 units to be turned into transient use; is that correct?

Mr. RICHARDS. Apparently so.

Mr. SIMON. Are you familiar with this letter of August 22, 1952?

Mr. RICHARDS. I don't think I have ever seen it. I have heard about it.

Mr. SIMON. At any rate you knew that the activity was successful when you earned the \$10,000 and not the \$5,000?

The CHAIRMAN. And the \$9,000 was paid?

Mr. RICHARDS. The \$9,600 was paid over a period of time.

The CHAIRMAN. July 24, as I understand it, \$25 in November, \$1,000 in December, \$1,000 in February the following year, \$1,000 in February, \$250, \$250, \$300, and \$300.

Mr. RICHARDS. Those payments were all made to me. They were deposited in my firm's account and not in my own personal account because we were rendering this service as a firm.

The CHAIRMAN. Any further questions?

Thank you very much.

Our next witness will be Mr. Curt C. Mack, former FHA manager. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MACK. I do.

Mr. SIMON. Will you give your full name and address for the reporter?

Mr. MACK. My name is Curt C. Mack. My business address No. 16 Park Avenue, Baltimore, Md.

Mr. SIMON. You were chief underwriter.

The CHAIRMAN. In this statement, Mr. Richards, you say you did absolutely nothing for this \$10,000; is that true?

Mr. RICHARDS. No, I do not say that. I say I did not represent Mr. Woodner before the agency. Neither did I make any personal contacts.

The CHAIRMAN. What was the \$10,000 paid you for?

Mr. RICHARDS. \$10,000 was paid me for consulting with Mr. Woodner, his attorney, and members of his staff, with reference to this particular matter, and that involved the matter of transient occupancy, the policy of FHA with reference to that, the matter of seasonal occupancy, the matter of furnished apartments, the matter of termination of rents in these seasonal and transient occupancy instances.

The CHAIRMAN. Yes, but the contract you entered into, Mr. Richards, specifically said you were hired to handle the matter of 250 rooms becoming a hotel. Is that not true?

Mr. RICHARDS. The contract—

Mr. SIMON. Let me read it again, if I may, Mr. Richards.

I am just reading the pertinent part. It is addressed to Mr. Anderson and says:

It will be necessary for you—

meaning Anderson—

to again intercede for us with the Federal Housing Administration to permit the occupancy of a number of our apartments for transient use. This is to authorize and direct you to represent us before before FHA to obtain this necessary approval, and to retain Mr. Franklin I. Richards to assist you in this effort. Mr. Richards' compensation shall be as follows: \$2,500 herewith, with an additional payment of \$2,500 to be made by us to him on or before September 10, 1952. The sum total of \$5,000 to be paid as a retainer for this work in connection with this effort. In the event you are successful in obtaining the approval from FHA for the occupancy of a sufficient number of accommodations on a transient basis so as to obtain certificates of occupancy from the District of Columbia for the commercial spaces as shown on the drawings approved by FHA, an additional \$5,000 shall be due and payable on or before October 15, 1952, or 30 days from the receipt of such approval, whichever is later.

Mr. RICHARDS. It must be remembered that that letter was written to Mr. Anderson and not to me.

Mr. SIMON. And I understood you to testify that he sent you a copy of it.

Mr. RICHARDS. He let me have a copy of it, and the purpose of my—and the reason that I received a fee was to consult with Mr. Anderson and with Mr. Woodner and his staff members as to the policy of the FHA, with reference to this type of case, and I reviewed with them these various details which I mentioned to you.

The CHAIRMAN. Mr. Richards, I am sorry we had to make an example of you, but we have had too many experiences in the past with witnesses, when they get all through, they hand out statements and ask us to put them in the record, and we have been putting them in the record for them without reading them and then we discover later that the statements were just half-truths and in many instances downright false, and in many instances did not cover the subject matter to which the man testified.

Mr. RICHARDS. I am pleased you asked me to reply.

The CHAIRMAN. I know you didn't intend to have it that way.

Mr. RICHARDS. I did not, and I am very happy that you did ask me to reply.

The CHAIRMAN. Without objection, we will place this statement in the record, but we are getting a little tired of witnesses who try to take advantage of our kindness in permitting them to put something in the statement that we didn't read in advance. We had an example like that with Mr. Cafritz when he was a witness; we had that example with Mr. Manilow yesterday or the day before; and we have had it in many other instances when they hire these high-pressure fellows to get out statements and hand them out and put things in them, of course, that weren't even said in their testimony.

Mr. RICHARDS. I wanted you to see that before we distributed it.

The CHAIRMAN. We appreciate that. Without objection, it will be made a part of the record.

(The document referred to follows:)

STATEMENT OF FRANKLIN D. RICHARDS

A question has been raised as to my relationship with Ian Woodner and his Rock Creek Plaza Apartment project, in Washington, D. C.

Following my resignation in June of 1952, as Commissioner of FHA, and my departure from FHA employment, Mr. Woodner requested me to advise him in connection with the Rock Creek Plaza project. I informed him that I would not represent him before FHA or contact Housing officials on matters considered by me while I was Commissioner. However, knowing that he had an attorney, I agreed to consult with the attorney and Mr. Woodner. I did not at any time appear before the Housing Agency or contact any FHA officials in connection with this project.

As far as I know, I had only two contacts with Mr. Woodner while I was with FHA. In one matter a decision was made contrary to his request and the other matter was referred back to the FHA staff for further consideration.

TESTIMONY OF CURT C. MACK, BALTIMORE, MD.

Mr. SIMON. Mr. Mack, would you again give the reporter your name and address, please?

Mr. MACK. My name is Curt C. Mack, and my present business address is No. 16 Park Avenue, Baltimore, Md.

Mr. SIMON. You were chief underwriter for FHA during what period of time?

Mr. MACK. Excuse me, Mr. Simon. I never had the title of chief underwriter.

Mr. SIMON. I am sorry. What was your title?

Mr. MACK. My first title in FHA was zone manager and subsequently I was director of appraisals, and the title I had for the longest term of my service was Assistant Commissioner in charge of underwriting.

Mr. SIMON. When were you Assistant Commissioner in charge of underwriting? What year?

Mr. MACK. I was appointed Assistant Commissioner in 1943, but the duties I then assumed were practically identical with those that I had previously under an earlier title, as of September 1940.

Mr. SIMON. Your position as Assistant Commissioner in charge of underwriting was the top underwriting man in the United States, in the Federal Housing Administration; is that right?

Mr. MACK. Yes, sir.

Mr. SIMON. And all of the underwriters in the field were responsible to you?

Mr. MACK. In a sense limited to the so-called technical, or underwriting operation, only. Not personnelwise.

Mr. SIMON. Do I understand correctly that the underwriting department of FHA had the responsibility for at least initially determining the estimated replacement cost on which the maximum amount of the mortgage was based?

Mr. MACK. Yes, sir. That responsibility was delegated by the Washington underwriting headquarters to the various underwriting staffs in the insuring offices, in the States and Hawaii, Puerto Rico, and Alaska.

The underwriting headquarters reserved the responsibility and the right to design appropriate technical procedures, to supervise those procedures, and to participate at the request of administrative officers or field underwriters in controversial cases.

Mr. SIMON. Mr. Mack, in 1942 Congress passed section 608 of the Housing Act which permitted mortgages up to 90 percent of the Commissioner's estimate of the replacement cost of the property. In 1947 Congress passed the act of December 31, 1947, which provided, as you will recall, just a two-sentence law, which provided in the second sentence that in making his estimates of replacement costs, the Commissioner shall make his estimates as close as possible to the actual cost of efficient building operations. You will recall those five words as being the precise words of the act: "Actual cost of efficient building operations."

Mr. MACK. Yes.

Mr. SIMON. Would you tell us briefly what FHA did to insure compliance with the act of 1947, by its underwriting offices around the country?

Mr. MACK. Insofar as introducing any basic change in the underwriting concept of appropriate cost estimation, the effect was nominal, for this reason. I had always, and my colleagues, in cost-estimating work, had always taken what I believe to be called an objective approach to costs. We never maintained that the cost estimate with respect to any single project was the precise cost which would be encountered, because that would have been an impossible task. Always the instructions—and this was true not only with respect to section 608 but the instruction of the field offices with cost estimates in section 203, and other sections, was to make those cost estimates in connection with the normal building practices of efficient builders operating in the area in which the subject property was situated.

Mr. SIMON. Mr. Mack, so frequently we get a builder before us whose actual costs were as much as one-third under FHA's estimates and we say, how could that happen, and invariably the answer is, "I was an efficient builder." But the statute required that all of the estimates be made on the basis of the actual costs of efficient building operations.

Mr. MACK. Yes, Mr. Simon. I myself and I don't believe my colleagues ever had access to the actual costs encountered by builders with respect to specific projects they were building.

Mr. SIMON. You say you did not?

Mr. MACK. We never did.

Mr. SIMON. The charter of every section 608 corporation that ever got an FHA mortgage was required to file annual statements with the Commissioner and every annual statement that I have even seen—and I have seen several hundred of them—lists the actual cost of construction of the project.

Mr. MACK. I beg your pardon. I wasn't sufficiently clear in my explanation. The underwriting services involving costs were invariably prior to the commencement of construction.

Mr. SIMON. For that project.

Mr. MACK. And once those costs will be estimated, we thought—and I still believe pursuant to the law and the instruction, that the Commissioner shall make an estimated cost, a commitment to insure a mortgage was based, in section 608, almost entirely on those costs, long before any costs of construction had actually be encountered.

Mr. SIMON. Did you ever check the actual costs when these buildings were completed, as a check on how your estimates were working out?

Mr. MACK. We tried to. The insuring offices, each director was a member of the chartered corporation. In fact, he was a director,

and those reports were sent not only to Washington—I believe they went to the Rental Housing Division, they did not go to the underwriters—but they were placed also in the hands of the director of the insuring office which had jurisdiction over the area in which the property was situated.

We used those reports largely for purposes of checking operating expenses and the accuracy of them.

The CHAIRMAN. How did you miss so many times?

Mr. MACK. I can't answer that.

The CHAIRMAN. Were you aware at the time that you were missing?

Mr. MACK. No.

Mr. SIMON. You say you weren't aware?

Mr. MACK. Not in all of these cases. These so-called windfalls were a shock to me.

Mr. SIMON. You say you were shocked at the disclosures?

Mr. MACK. At the extent of the alleged windfalls.

Mr. SIMON. Are you familiar with the letter dated June 30, 1950, a little over 4 years ago, from the Comptroller General to the Commissioner of the Federal Housing Administration?

Mr. MACK. I am sorry I don't identify it by that description.

Mr. SIMON. Under date of June 30, 1950, the Comptroller General wrote a letter to the Commissioner of the Federal Housing Administration pointing out specific areas of administrative deficiencies, and especially weaknesses in the underwriting and appraisal operation, and that letter specifically mentions, and I quote from the letter—insurance commitments are based on values established by FHA underwriting representatives. In many instances these appraisals exceed the estimates submitted by the builders or contractors.

Was that letter made available to you in 1950?

Mr. MACK. I have no recollection of it but I don't want to try to get technical in underwriting work, particularly in valuation, but we constantly maintained that under the law we did not value section 608 properties in the sense of an appraiser's use of the term "valuation."

Section 608 mortgage determinations were based—as we have said previously right here—on an estimated cost, and to us in our practice, cost does not, per se, constitute value.

Mr. SIMON. Oh, not at all, but you were required to estimate the replacement cost of the property, and in countless cases your estimate of cost was as much as 30 percent and 35 percent off, from the actual cost.

Mr. MACK. I have no recollection of the letter. The cost estimates were made in field offices, the volume was terrific and our supervision was as vigorous as we could perform out of the Washington headquarters.

Mr. SIMON. We had occasion in Chicago, the Michigan Shore Apartments where the sponsor filed an application with FHA estimating the cost at \$7,200,000. FHA estimated the cost of that same project at \$8,650,000, \$1,450,000 more than the sponsor and the building, when finished, had actual costs within \$50,000 of the sponsor's estimate. He hit it right on the button and FHA was a million and a half off. How could you explain that?

Mr. MACK. I don't know the case.

Mr. SIMON. Michigan Shores, at 1350 Lake Shore Drive.

The CHAIRMAN. You see, the unfortunate part about that was that they based the rents, then, on eight-million-six-hundred-and-some-thousand dollars plus the cost of the land and other costs which brought it up over \$9 million. This gave them a windfall of about, I think Mr. Bard, of the General Accounting Office, figured for us and has so testified, \$112,000 a year in additional rentals that they wouldn't have had otherwise. Over a period of 30 years that was a \$3,360,000 windfall in rents.

Mr. MACK. I am not familiar with that case but it would appear that FHA in its cost estimates was over about 15 percent.

The CHAIRMAN. It should have been 90 percent of \$7 million. It was \$8,650,000, so you missed it about \$2 million, which would be about 22 or 23 percent.

Mr. MACK. I couldn't speak to a specific case, Senator. I never have seen it. I would be glad if you wish to attempt to review the case.

The CHAIRMAN. Isn't it a fact that the Commissioner at the time the Congress passed this law in 1947, paid absolutely no attention to it?

Mr. MACK. I beg your pardon.

The CHAIRMAN. The Commissioner paid no attention to the 1947 law passed by the Congress saying that it must be based upon efficient building operations?

Mr. MACK. I could not say that.

The CHAIRMAN. You just testified a minute ago—

Mr. MACK. I said in my own thinking that it had relatively little effect because we had—in underwriting—because we had always tried to seek out those costs which represented a typical level of cost of efficient builders in the community.

The CHAIRMAN. Is that why you say now that you said you were amazed? Or what did you say a minute ago of the number we have exposed?

Mr. MACK. The alleged widespread windfalls.

The CHAIRMAN. You say you are amazed at it.

Mr. MACK. Yes.

The CHAIRMAN. They are no longer alleged. They are now a reality.

Mr. MACK. If they are proved I don't know it.

The CHAIRMAN. You haven't evidently been following the hearings.

Mr. SIMON. Mr. Mack, in every case that we have had that I can recall, where witnesses have testified here that their actual costs were two, three, four and five million dollars less than the mortgage proceeds, the audit report of those sponsors which were filed with FHA in a reasonably short period after the project was completed, disclosed the costs which have now been disclosed here publicly for the first time, but these audit reports have been on file with FHA for years. Did anybody ever look at them?

Mr. MACK. I am certain they did in rental housing but I did not have access to those, as I recall, as a routine matter. I don't recall seeing them.

Mr. SIMON. The underwriting department didn't look at them?

Mr. MACK. No, sir. Occasionally we requested them for a different reason. That is to determine operating expenses, or data for our processing future cases.

Mr. SIMON. But you didn't look at them for the purpose of checking on your estimates of cost?

Mr. MACK. No; but they were available in field offices and I must assume, in logical procedure, that the field office where the cost estimates were made, did have access to that data.

Mr. SIMON. I have just one more question: We have been repeatedly told that the routine manner for estimating costs by FHA, in the field, was if an estimator had to estimate the cost of a 4-apartment building, he would take off his quantities and make a real estimate for the 4-apartment building. And then if he had a 400-apartment building, he would take his costs for the 4 apartments and multiply it by 100, and that would be his cost for the 400-apartment building.

Is there any basis for that information being given to us?

Mr. MACK. If I ever caught one of our estimators doing it that way I would give them a verbal spanking, or worse. We had complete and, I'm quite certain, adequate cost procedures set up for use in field offices. Cost data was accumulated monthly under a prescribed procedure. The so-called 1-4 family dwellings which were highly repetitive in almost all insuring offices because previously the bulk of the business had been in that, had been set up in what we called cost locality adjustments for easy cost estimating.

Mr. SIMON. Then, how do you account for the fact that in this Shirley-Duke property just outside the District, the Commissioner estimated the cost at roughly \$15 million and the cost turned out to be \$10.5 million?

Mr. MACK. You take me into the realm of supposition, Mr. Simon.

Mr. SIMON. I was just hoping you could give us an explanation on how that might have happened.

Mr. MACK. I will try.

The volume of section 608 business presented to our insuring offices, and particularly the insuring offices situated in the larger metropolitan areas deluged the staff. You will excuse me if I am inaccurate but these are approximate: I recall in the New York office, for instance, we had a backlog of section 608 processing which would, by its normal processing procedure, go 6 months. The act was approaching an expiration date and the pressures to get this business processed were immense.

Mr. SIMON. It was a good thing and everybody wanted in before the act expired.

Mr. MACK. Yes; but it was a hard time getting the builders started building but once the ball was rolling it snowballed and the avalanche of business was immense.

Mr. SIMON. They were slow to get in but once they saw how good it was they were real interested; is that right?

Mr. MACK. It was the impact of a tremendous housing demand that was attempted to be satisfied by a hitherto unbelievably loose credit system but it was not our purpose to make that loose. We were trying to follow procedures. Mr. Foley, I believe, was Commissioner at the time Mr. Richards was Assistant Commissioner in charge of field operations and the need to get some kind of a piece of machinery which would do a reasonable job and still turn out these cases was really tremendous and at that time, as I recall—and I would be hard put to set the date—Mr. Foley, himself, wrote a letter

to the insuring offices and as is proper, I suppose, in a good assistant commissioner, I wrote a letter and said, "Me too."

What it said was:

Now, you can take shortcuts in your cost estimation provided you are convinced that you will get a reasonably adequate conclusion, and you may use data which you have accumulated on processing similar properties on previous occasions—

trying to save the material that had been validly created. And at that time I think there were a good many pretty wide variations from the established cost-estimation procedure. Excuse me, I know you won't want me to make a speech.

The CHAIRMAN. That is very interesting. You and Mr. Foley got out a letter where you said to hurry up and if there could be any shortcuts taken, to go ahead.

Mr. MACK. But I shook my finger in the letter and said, "Don't go haywire. You must be convinced."

These men in the insuring offices, and we are speaking of the cost men, were experienced but the experience they had was in 1-, 2-, 3-, and 4-family dwellings and estimates; they are confronted suddenly with a 6- or 8- or 10-story building involving steel, concrete, engineering, elevators, and all manner of things, and that was particularly true in the larger offices and the difficulties were enormous.

I am not trying to apologize for the staff, I am trying to answer possibilities of things that arose.

Mr. KENNEY. At the time section 608 was enacted in 1942, the requirement for economic soundness was not included in this particular section of the act, although it had been included in all previous sections of the act. Do you have any explanation for that?

Mr. MACK. Oh, yes. I think it was a matter of general understanding in the whole Administration, that the words "economic soundness" to us, meant that the property should have a value equal at least to its cost, that it should give evidence of continuity and of marketability. That is continuity of market demand. So that our valuations would reflect a long-term use, or investment value, rather than just an immediate productivity. And the whole legislative testimony, as I recall, when title X, itself, was being devised, was that it was to meet an extraordinary, unusual situation, and that there was a much higher degree of risk to be involved in connection with the insurance of these mortgages, because of a greater degree of doubt of the continuity of need or demand, migration and movement of people into areas which did not give evidence of continued need after the war.

Mr. KENNEY. It was expected losses might be incurred in excess of what might have been incurred, had the act been based on economic soundness.

Mr. MACK. The better the underwriter the more frightened he was of the import and implications of title XI at that time, although the experience has been much better than any of us anticipated.

Mr. KENNEY. The real reason was to produce a large amount of housing which was critically needed for the war effort.

Mr. MACK. So I understand.

Mr. SIMON. Was there any reason why there was very little mortgaging out in 1944 and 1945, when the war was going on—very little mortgaging out in 1946, 1947, and 1948, during this critical postwar

period that everybody talks about when we so desperately needed housing, and that all the big mortgaging-out cases involving many millions of dollars all occurred in 1949, 1950, and 1951, when that critical period no longer existed?

Mr. MACK. The only thing I can attribute it to, Mr. Simon, is something I have mentioned previously of the tremendous volume of work. Section 608 got a slow start.

Mr. SIMON. As needs for housing decreased, the desires of the builders increased?

Mr. MACK. It did run postwar, considerably.

Mr. SIMON. The big mortgaging out occurred in 1950 and 1951?

Mr. MACK. Some in 1949, but most in 1950 and 1951.

I think that was possibly due to pressure and the shortcutting of costs. That is conjectural and I didn't know that before.

Mr. SIMON. Do you think the pressure in the offices to get these things out could have resulted in more carelessness than there should have been?

Mr. MACK. Not so much carelessness as actual exhaustion in attempts to meet the demand. Some of these men would work nights and all night, and the Commissioner himself tried to discourage them from doing it, but they did. I know many of them did reach the point of exhaustion. They would make the most ludicrous errors as we all do when we pass the fatigue point.

Mr. KENNEY. Was the need for housing just as critical in the post-war period, for returning veterans, as during the war period?

Mr. MACK. Well I think so, Mr. Kenney. On balance—that is, all together, it varied widely, as you know, by locality, yes.

Mr. KENNEY. Was the FHA put in a position of having to promote housing and at the same time determine acceptability for mortgage insurance?

Mr. MACK. Yes, but I wouldn't let the underwriters do it, generally. There were meetings up and down and across the country to explain the facilities of not only section 608, but also section 603, as I recall, but particularly section 608's.

Mr. KENNEY. From a sound mortgage operation viewpoint, that is not a sound mortgage operation; is it?

Mr. MACK. I will accept that as a conclusion. Yes, sir. No, sir.

Mr. KENNEY. Did you have difficulties in adequacy of staff in the processing of costs and the other underwriting operations?

Mr. MACK. The difficulties were tremendous. Not only in connection with processing, but in connection with adequate compliance inspections. We were finally able to convince, we thought, parsimonious personnel and budget officers to give us what we called then a movable force of inspectors who after the project had been put into operation, and into construction, that is—we had to make the inspections as the moneys were paid out by the lenders and we had a staff of some 70 men, but the insuring offices could not be augmented as to cost estimators, architects, and mortgage creditmen, because men can't be trained that quickly, they couldn't be found. They were scarce in those days. Our personnel difficulties were great.

Mr. KENNEY. You were severely handicapped from the standpoint of inadequacy of personnel?

Mr. MACK. Yes.

Mr. KENNEY. In the FHA there are two large divisions. One is the Rental Housing Division, and the other is the Underwriting Division.

The Underwriting Division has responsibility for determining the economic soundness or the acceptability of mortgages.

The Rental Housing Division had administrative direction over field offices covering the administrative direction of section 608. The Rental Housing Division, did it have any authority in your organizational setup, to determine, or to make your determination of economic soundness, or did they have any authority over you in any way to cause you to make decisions that they might want made?

Mr. MACK. With respect to underwriting matters.

Mr. KENNEY. As to economic soundness or acceptability of mortgages?

Mr. MACK. No; we often argued, as we did with other administrative personnel, who had responsibilities to get the job done, they would not push, but give us arguments, valid arguments, I thought, but ultimately when an underwriting decision was made, it was the determination of the chief underwriter in the insuring office affected. If someone wished to appeal that, even an administrative officer of the administration, it could by request be sent to Washington for review. If it were so sent, it would be reviewed in the appropriate section of the Underwriting Division and a finding would have been recommended. The only man who had authority to overrule an underwriting decision was the Commissioner, himself, and in my total experience, that was never done except by full conference and collaboration. It was actually done in a very few cases.

Mr. KENNEY. The decision was really one made by the field office, subject to review if requested by the Underwriting Office?

Mr. MACK. Yes. If the field office requested a review, it very frequently was sent in by the chief officer of an insuring office—namely, the Director—to his regional officer. And, if it involved underwriting—and many of the cases did not involve underwriting, they involved policy, such as the one I heard here discussed later as to whether or not to permit any commercial, but if it involved underwriting, it was referred to the underwriting headquarters and it was referred in turn to the section concerned.

Mr. KENNEDY. Was it the policy of the Underwriting Division of the Washington Office to overrule the field underwriter in any cases other than cases in which he was clearly in the wrong?

Mr. MACK. No. There are eight sections in the underwriting headquarters and all of them, by long practice and policy, would never even make such a finding without collaboration, either by correspondence, by phone, or by personal supervisory contact with the insuring office involved, because so many problems are entirely local in scope, which bring peculiar but proper results.

Underwriting in Washington would never overrule an underwriter's finding in the absence of obvious error.

Mr. KENNEY. Do you feel the underwriter's decision was based on the decision of his section chiefs?

Would you explain the process in the office, how these various section chiefs would come to a decision and that would finally be submitted to the Chief Underwriter?

Mr. MACK. Well, as you know, there were variations in this procedure according to the type of case being processed.

Did you have particular reference to section 608 type cases?

Mr. KENNEY. Primarily section 608, but it would apply to all cases, would it not?

Mr. MACK. When a case was received in the insuring office—that is application was formally filed by a lender—the lender, the approved lender was the only person who could file application for a mortgage insurance contract. The case was duly recorded and then sent to a man who made a review of it to see if it was generally eligible. And by that I mean if it met the basic requirements of the law and the standard practices of underwriting procedure.

If so, the case was then routed to the separate sections having jurisdiction.

For instance, if it was a new case, invariably it would go, as all section 608 business would, to the Architectural Section for a determination of the plans—if the plans and specifications were adequate to meet the minimum property and other requirements to produce a satisfactory result.

It also went, in the Architectural Section, to the cost-estimating part of the Architectural Section. Simultaneously the case went to Mortgage Credit to determine if the promoters had enough capital available to them to complete the project. And I might point out that every section 608 case that did not involve leasehold financing had to come to closing with land free and clear, fully paid for, plus some working capital.

When those offices, including the Evaluation Section—which in this case is a misnomer because it did not make an evaluation but it did scrutinize the marketability and adequacy of rents, it set up operating estimates, operating cost estimates, it set up various other items such as what was called a reserve for replacement, which is a preferred operating cost, estimated taxes, estimated insurance and other items, and then those three sections brought them together into a tentative conclusion which was then reviewed by a little group called a review committee of the Chief Underwriter, who was the Chief, the man in charge of underwriting in that office under the direction of the Director, and his section chiefs.

If they had a meeting of the minds and each had processed his case and credit was satisfactory, the property met construction requirements and they made a cost estimation and the rent less the operating expenses were adequate to support the mortgage, then the Chief Underwriter, he agreeing, made a recommendation to the Commissioner that the case be committed for mortgage insurance.

Mr. KENNEY. It was merely a recommendation?

Mr. MACK. Oh, yes, sir. All the findings of the underwriters were transmitted in the form of recommendations without exception.

Mr. KENNEY. Was it possible for the Chief Underwriter, or any two men in the field office to make a decision which was against the best interests of FHA?

Mr. MACK. Well, the Chief Underwriter had a great deal of authority vested in him. He had the authority to overrule findings of any one of his section chiefs, or his section's operations, but if he did, he assumed full responsibility for the finding.

Just as in Washington underwriting headquarters, if we overrule the recommendation of an office, then the responsibility became that of the underwriting headquarters.

If in turn, in the sections, the section chief had the right and frequently exercised it at that level, to amend or change or overrule the findings of one of his staff and, if he did so, then it was his responsibility.

Mr. KENNEY. In the section 608 program and the section 603 program, which was the war-housing program, do you know the number of residential units that were constructed?

Mr. MACK. I believe it ran to 6,000 or 7,000 cases involving 700,000 units.

Mr. KENNEY. The FHA annual report for 1952 states that the total units is 1,096,860 for a total mortgage amount of \$7,110,568,000.

It also states there were over some 7,000 projects.

Now, in processing 7,000 projects, is it not unusual for a certain number of those projects or a certain percent of the projects to be on the high side in the estimate of cost?

Mr. MACK. Well, I suppose you could say it that way, since the underwriting operation cannot, in my opinion, be identified as a science, but rather was an art of estimating, which involves a good many sciences. There is certainly going to be some degree of error. As you may remember, we taught our people that there is no virtue in over- or under-evaluations, that our constant effort shall be to strive to get the best and most valid data and therefore, have our conclusions as accurate as possible.

I would say that there were certainly probabilities that some would be over, and likewise some would be under, and there must have been some because I heard some agonized complaints of bankruptcy difficulties and so forth.

Mr. SIMON. If there is bribery or corruption involved that has no relation to undervaluing or overvaluing?

Mr. MACK. I am not talking about anything like that. I mean the objective approach to try to find a valid conclusion.

Mr. SIMON. You wouldn't include in that either the cases where the FHA employees would do the work for the builders at night and then have the builders present their own work to them for approval?

Mr. MACK. I am not talking about any tangents like that, Mr. Simon.

Mr. SIMON. I assumed you didn't.

Mr. KENNEY. During your experience in FHA, have there been many cases of dereliction that have been called to your attention?

Mr. MACK. Dereliction? How do you mean?

Mr. KENNEY. In performance. The accepting of gratuities—of substantial gratuities, such as substantial amounts of money involving bribes of \$100 or more?

Mr. MACK. Well, matters of that sort did not touch my part of the operation. They were administrative in character and if sufficiently aggravated, were referred, I am sure, to our legal division.

But by virtue of my membership on the executive committee, where many things were discussed, I had occasionally those matters brought to my attention, but I would say the ones that I saw over the years were relatively few, in comparison to the three or four thousand men including the administrative personnel, in the insuring office, but I

would not be able to answer that accurately because many of those cases never had any contact with my office.

Mr. KENNEY. Do you know what the overall total of the FHA program has resulted in the construction of how many units, or what total volume of mortgages?

Mr. MACK. I know that the figures are astronomical, and I may have a bit of indulgence, that was one of the greatest satisfactions that I got out of my work, that we were having a constructive influence in providing housing.

Mr. KENNEY. According to the 1952 Federal Housing Report, I believe they set out a total volume of some \$29 billion.

Is it your opinion that the cost estimation done in processing those cases had been a reasonably acceptable job?

Mr. MACK. Yes. It always was.

Mr. SIMON. At least that is your opinion?

Mr. MACK. Yes, it always was my opinion. And I believe, on balances, setting section 608's aside, in the small-dwelling field, I think there is a very large degree of accuracy. And if I may speak to that point for just a moment, sir:

The requirements were that cost estimates include prevailing wages as determined by the Department of Labor.

There could have been an error, there, by virtue of the efficiency of the producing of labor, but our investigation showed that during the war and immediately after, the productivity of labor was even lower than it was the tendency to estimate in the insuring offices. They would vary the costs in materials by about 50 percent, sometimes because of that. Whether a builder charged all of his costs to a case, I do not know.

Mr. KENNEY. Do you have any further statement you would like to make?

Mr. MACK. Yes, I have one statement.

I do not have a written statement to hand out.

Senator BEALL (presiding). Thank you very much.

The next witness is Mr. Frank Meistrell, General Counsel for FHA.

Mr. Meistrell, will you raise your right hand, please?

Do you solemnly swear that the statement you are about to make will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF FRANK MEISTRELL, GENERAL COUNSEL, FEDERAL HOUSING ADMINISTRATION

Mr. MEISTRELL. I do.

Senator BEALL. Give your full name.

Mr. MEISTRELL. My name is Frank J. Meistrell. I reside at 3700 Massachusetts Avenue, Washington, D. C.

Mr. SIMON. You are the General Counsel of the Federal Housing Administration?

Mr. MEISTRELL. I am.

Mr. SIMON. You have been general counsel for 3 weeks or 4 weeks?

Mr. MEISTRELL. I became general counsel the 15th or 16th of August.

Mr. SIMON. 1954?

Mr. MEISTRELL. 1954, yes, sir.

Mr. SIMON. We asked you to be able to tell us, today, how many questionnaires the Federal Housing Commissioner has sent this year, to section 608 mortgagors, and how many of them answered those questionnaires.

Are you able to give us that information?

Mr. MEISTRELL. Yes, sir, I am.

There were 6,438 questionnaires sent to section 608 mortgagors; 1,261 were completed and returned, 1,109 were returned incomplete, and 4,068 were either no reply or did not file a questionnaire but claimed certain bases for not responding.

Mr. SIMON. Those questionnaires asked these people whether their actual costs were in constructing these projects?

Mr. MEISTRELL. That is right.

Mr. SIMON. Do I understand you correctly that two-thirds of them have never responded to questionnaires? That is, have never filed answers to the questionnaires?

Mr. MEISTRELL. That is right. Some of them wrote and wanted an extension of time or said the information was not available.

Mr. SIMON. When were those questionnaires sent out?

Mr. MEISTRELL. They were sent out on June 17 of this year and the information was requested to be returned on or before July 15 of this year.

Mr. SIMON. And as of October 8, you still have two-thirds of them who have not replied to the questionnaires?

Mr. MEISTRELL. That is right.

Mr. SIMON. Have you been able to tell how many letters you have received which are verbatim; for instance, the letter you received from the Plaza Apartments, Inc., of Lubbock, Tex.?

Mr. MEISTRELL. I am not familiar with the letter that you refer to.

The CHAIRMAN. You say you sent out about 7,000 questionnaires?

Mr. MEISTRELL. Approximately 6,500, Senator.

The CHAIRMAN. How many did you get back?

Mr. MEISTRELL. We got back complete, 1,261.

The CHAIRMAN. You had a complete answer to your questionnaire?

Mr. MEISTRELL. We have had various responses.

The CHAIRMAN. It is right under the law because FHA owns all the preferred stock in every one of those corporations.

Mr. MEISTRELL. That is correct.

The CHAIRMAN. Do you mean to tell me, then, that these corporations are defying the FHA? The owners of all the preferred stock and guarantors of the mortgages?

Mr. MEISTRELL. Yes, sir. They have not responded to the questionnaire in the numbers that I have testified to.

The CHAIRMAN. Has there been any organized effort to keep them from doing it?

Mr. MEISTRELL. We have been constantly writing to them to get the information, but in some instances they have completely ignored our request.

The CHAIRMAN. Thank you very much.

Mr. Neel will be our next witness.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF SAM E. NEEL, GENERAL COUNSEL, MORTGAGE BANKERS ASSOCIATION**

Mr. NEEL. I do.

Mr. SIMON. Mr. Neel, you are general counsel of the Mortgage Bankers Association?

Mr. NEEL. I am.

Mr. SIMON. I hold in my hand a letter to members, on apparently your printed green form, which says:

To all members from Sam E. Neel. Subject: FHA questionnaire to 608 mortgagors.

In the upper righthand corner it says, No. 26-54, issued June 24, 1954.

Do you have a copy of that?

Mr. NEEL. Yes, sir; and I made a copy available to you at your request.

Mr. SIMON. Are you the author of that letter?

Mr. NEEL. Yes, indeed.

Mr. SIMON. We would like to put the entire letter in the record, but in substance it suggests that FHA mortgagors might very well want to consider writing a letter similar to a copy of a letter attached.

Mr. NEEL. I disagree with that conclusion, Mr. Simon, but you are at liberty of course to make it.

Mr. SIMON. Is this the letter?

Mr. NEEL. Would you like me to read it?

Mr. SIMON. I will read it and you may follow me:

DEAR MEMBER: On June 17, 1954, FHA Commissioner Mason addressed a letter to all 608 mortgagors. Forwarded with this letter was a questionnaire. Mr. Mason's letter stated that each 608 mortgagor was required to furnish the information called for by the questionnaire "pursuant to the authority vested in the Commissioner."

The questionnaire states that its purposes are to (1) determine the actual cost of the completed 608 project, and (2) to determine the deposition of the difference if the cost was less than the amount of the mortgage.

The questionnaire goes into the most complete detail about all factors involved in the construction of each 608 project.

The questionnaire is required to be sworn to, and Mr. Mason's letter states that the data inserted thereon "will be subject to audit under the regulations of FHA."

For those members of MBA—

that refers to Mortgage Bankers Association, I take it?

Mr. NEEL. That is correct.

Mr. SIMON (continues reading):

For those members of MBA who have an interest in a corporation which is a mortgagor under section 608, compliance with this requirement of the FHA Commissioner presents serious problems. One member of the association has requested my advice as general counsel. Specifically he has requested advice as to the authority of the Commissioner to compel production of such data.

Naturally, the decision as to whether a mortgagor shall or shall not comply with the Commissioner's requirement in this case must be made by the firm concerned. It is neither my intention nor purpose to direct the decision which shall be made.

However, it does seem appropriate to point out that discussions with informed attorneys and other qualified persons make it quite evident that there is a serious doubt whether the FHA Commissioner has any authority either under the National Housing Act, the regulations issued thereunder, or in his capacity as a preferred stockholder in each 608 corporation, to require production of such information as the questionnaire seeks.

Mr. Mason's statement that the questionnaire is issued "pursuant to the authority vested in the Commissioner" cannot create authority where none exists. An analysis of the provisions of the National Housing Act and the FHA regulations discloses no language or congressional intent which would create such authority. The only other apparent basis for authority is the following language which is contained in the charter of each 608 corporation. "At the request of the Commissioner \* \* \* the corporation shall give specific answers to questions upon which information is desired from time to time relative to the income, assets, liabilities, contracts, operation, and condition of the property and status of the insured mortgage and other information with respect to the corporation of its property which may be requested. \* \* \*"

That the above language was not designed—

The CHAIRMAN. Stop right there.

I don't know how anything could be more broad than that. If there is anything more broad than that statement that was just read, giving the FHA Commissioner authority to secure this information. Read it again, will you? Show how broad it is. If it doesn't cover everything.

Mr. SIMON (continues reading):

The only other apparent basis for the authority is the following language which is contained in the charter in each 608 corporation. At the request of the Commissioner, the corporation shall give specific answers to questions upon which information is desired from time to time relative to the income, assets, liabilities, contracts, operation, and condition of the property, and status of the insured mortgage, and any other information.

The CHAIRMAN. Any other information?

Mr. SIMON (continues reading):

And any other information with respect to the corporation or its property which may be requested—

Mr. NEEL. I set the statutory language out, Mr. Chairman, and if in your opinion, which, of course, I would not quarrel with, you believe—

The CHAIRMAN. Mr. Neel, we are just trying to find out today whether the FHA Commissioner has—whether, in your opinion, and the association you represent, whether they have the authority to get this information, because if there is any doubt about it, I will assure you there will be legislation introduced the first day of the next session of Congress, giving them the authority to secure this information. I just want to find out whether it is going to be necessary to introduce the legislation.

Mr. NEEL. That would be perfectly proper, Mr. Chairman, and it is entirely a decision for this committee and the Congress to make.

Mr. SIMON. The letter goes on:

That the above language was not designed to cover production of cost data at a date subsequent to the endorsement by the FHA of a contract of insurance is the conclusion of competent counsel and other experienced individuals.

Assuming a question exists as to the authority to compel production of the information, each corporation must then consider the practical dangers inherent in setting down under oath, data which is subject to audit regarding a transaction which may have occurred some years in the past and as to which records may very well be now incomplete or lost.

There is also the corollary question of what authority the Commissioner has to direct the disposition of any funds of the corporation, assuming there is a difference between the amount of the mortgage and the cost of the project.

As one attorney stated, this subject of the disposition of any so-called excess funds has been discussed in the hearings before the Senate Banking and Currency Committee, has been the subject of many newspaper releases by the Housing and Home Finance Agency, and still the FHA has not taken a positive

and definite position that it has the legal right to direct the disposition of any such funds, if any there be. This attorney further pointed out that the information requested, in effect, is questioning the FHA determination of the insurable mortgage amount long after all the contract rights and obligations have been fixed.

For your information there is enclosed a copy of a letter which it is understood one 608 mortgagor is addressing to the FHA in reply to Mr. Mason's letter of June 17. Since the identity of the mortgagor is in this case not significant, the signature on the letter has been deleted.

Sincerely yours,

SAMUEL E. NEEL, *General Counsel.*

Did you write that letter, Mr. Neel?

Mr. NEEL. Yes, I did, Mr. Counsel.

Mr. SIMON. Did it go to all members of the Mortgage Bankers Association?

Mr. NEEL. Indeed it did.

Mr. SIMON. And how many members are there?

Mr. NEEL. Approximately 2,000, maybe a few hundred more.

Mr. SIMON. Now, the letter which you attached, who wrote that letter?

Mr. NEEL. Well, the answer to that question is a little bit involved. I don't know exactly who wrote it. I assisted in writing it. If I had written it alone, I would be glad to tell you so.

Mr. SIMON. Did you participate in writing it?

Mr. NEEL. Indeed.

Mr. SIMON. And that is the letter which you participated in writing and which you sent to your entire membership, is that right?

Mr. NEEL. Yes, indeed.

Mr. SIMON. The letter reads:

DEAR MR. MASON: Since receiving your letter of June 17, 1954, the officers of the undersigned owning corporation, have again reviewed the provisions of the charter of this corporation, its bylaws and the mortgage instrument, and have discussed your request with our counsel. We believe we have attempted in good faith to comply with all requirements and obligations of the corporation, and insofar as we can determine, we have complied with all legal obligations.

Although we have examined and reexamined the pertinent documents we are unable to satisfy ourselves that this corporation is under an obligation or compulsion directly or indirectly to furnish the information requested. We were not satisfied, however, to take this position on legal grounds alone, and have asked ourselves why the FHA wanted this information for the data to be obtained at this late date; or what governmental purpose would be served. If we could find some reasonable purpose to be accomplished our attitude might be entirely different, since it has always been the purpose and objective, of the officers of this corporation to cooperate with and work with the FHA and all agencies of the Government to the best of our ability.

Perhaps you have not been with the FHA for a sufficient—

The CHAIRMAN. That is addressed to Mr. Mason?

Mr. NEEL. He had only been there for a matter of 60 days, Mr. Chairman.

Mr. SIMON (continuing):

Perhaps you have not been with the FHA for a sufficient period of time to have had the opportunity to review the legislative history behind the various rental housing mortgage insurance programs, or to analyze all the provisions of the National Housing Act covering this subject, or to examine all the administrative rules and regulations issued over the years to supplement the statute, or to examine all the operating procedures issued over the years by your predecessors, or to know of the campaigns and promotions initiated by your predecessors, on particular wartime emergency housing programs in an effort to encourage builders and lenders to produce housing for rent. You must, however,

be aware of the fact that thousands of rental units were produced by private industry at rentals equal to or below the rentals then being charged for comparable units in the area; that the Government could not have produced the needed housing itself at costs anywhere comparable to the cost of private industry; and that it would have been doubtful if the needed volume could have been built in time to meet the demand; and you must be aware of the impact of such building on the economy under conditions of the free-enterprise system upon which the strength of this country has been built.

You know or should know the terms and conditions and procedures which were in effect when projects of this nature were originated and completed. You will find that the principals of this corporation applied to an improved mortgagee for a loan to build a proposed rental-housing project, and the mortgagee said in effect, we will advance the loan, in the amount that the FHA will agree to insure for our protection. We furnished the information and data required, and were told that the FHA would process the mortgagee's application and would independently and for its own account, decide the maximum mortgage loan it would insure for the benefit of the mortgagee, and would specify the terms and conditions under which the insurance liability would be undertaken.

The FHA did not, as far as we can determine, reach its determinations and conclusions on the basis of our costs; the FHA did not require this corporation or the mortgagee to keep cost records; the FHA did not stipulate that the mortgage amount it would insure could not exceed actual and audited costs; the FHA did not impose a condition or requirement that this corporation would be required to submit detailed cost information upon completion of the project, or when the loan was endorsed for insurance or at any future date.

The FHA did issue a commitment to the lender contracting to insure for the benefit of the lender a mortgage loan in the dollar amount written on such commitment subject to specific terms and conditions; the FHA did inspect the construction, and upon completion of construction the FHA did say to the lender in effect that all the terms and conditions of our commitment have been met to our satisfaction and the FHA is ready to endorse the mortgage for insurance in the dollar amount specified. The FHA did in fact enter into the mortgage insurance contract with the lender on the basis of the FHA determination that all the provisions of the applicable statutes had been met, as well as all the requirements and rules it had specified as conditions of such insurance.

We have read the publicity issued through the Housing Agency, and the newspaper reporting of the hearings before the Senate Banking and Currency Committee, and have been greatly disturbed at the statements made implying wrongdoing under the law in such general terms as to place every owner of stock in a mortgagor corporation owner of a project subject to a mortgage insured under section 608, under suspicion as having violated the provisions of the New Housing Act, the rules and regulation issued thereunder, agreements or contracts between the corporation and the FHA, or other Federal statutes. No specific statutes are cited, no detailed charges have been made of which this corporation is aware, and in particular at no time have we been advised as to the legal authority, chapter and verse, under which the FHA Commissioner could properly demand or require this corporation to apply or dispose of such funds, if any, which it may have received from the proceeds of the mortgage.

We have examined all pertinent documents in this transaction, we have carefully analyzed your request from the standpoint of such documents, from the standpoint of a proper and legitimate private business transaction, from the standpoint of reasonableness and fairness, and can reach no other conclusion that this corporation and its stockholders have complied with all requirements of the applicable law, as well as any rules and regulations having the force of law.

We cannot assume that you in your capacity as a responsible officer of the Government would demand such extensive information and put a private corporation to the time and expense involved to comply, without having first determined your legal right under the law to make the demand and to force a demand upon this corporation and other rental housing corporations in the same position, to apply such funds, if any, in a manner not specified in the charter, the mortgage instrument or any agreement or contract between the corporation, and the mortgagee and the FHA.

Under the circumstances it would seem reasonable to us to request a copy of the ruling or opinion which you must have obtained from your legal adviser.

In the atmosphere of the hearings, the issuances from your office and the housing agency, and the publicity given to the rental housing projects constructed with the assistance of FHA mortgage insurance, we believe you will readily agree

that this request is reasonable and necessary to enable this corporation and others similarly situated to determine the proper course of action to take on a matter which has had such unfair and misunderstood public notoriety.

Very truly yours.

(No signature.)

Is that the letter, Mr. Neel?

Mr. NEEL. Yes, indeed, it is Mr. Counsel, and as a matter of fact, I have never seen any legal opinion or ruling upon the basis of which Mr. Mason makes his requirement.

As a matter of fact, I was advised——

Mr. SIMON. I just saw a very good one written by you, right here, written by you.

Mr. NEEL. The difference in lawyers opinions is what makes lawsuits.

The CHAIRMAN. Read Mr. Neel's opinion again.

Mr. SIMON. This is page 2, the first paragraph of your letter to your members:

The only other apparent basis for authority is the following language which is contained in the charter of each 608 corporation.

At the request of the Commissioner, the corporation shall give specific answers to questions upon which information is desired from time to time relative to the income, assets, liabilities, contracts, operation and condition of property and status of the insured mortgage, and any other information with respect to the corporation or its property which may be requested.

That is the best legal opinion that can be written.

Mr. NEEL. You are entitled to your opinion, Mr. Simon. I don't quarrel with your opinion. As a lawyer, when a client asks my opinion, I would be foolish if I didn't give him my opinion.

Now the fact that you may not agree with it does not mean I am under any disability to give it.

The CHAIRMAN. We asked that some representative of the Mortgage Bankers Association appear today—not necessarily yourself.

Mr. NEEL. No, sir. May I correct that.

I asked Mr. Simon if he wished anybody else, and he asked me specifically.

Mr. SIMON. We asked for you and all we wanted to show and all we intended to show was that you, as counsel for the Mortgage Bankers Association, gave this opinion to its members and circulated this letter with whatever suggestion the recipient might care to infer from the contents of the letter, to every member of the Mortgage Bankers Association.

Mr. NEEL. Yes, indeed, I did.

Mr. SIMON. That is the fact?

Mr. NEEL. That is the fact.

The CHAIRMAN. And in substance, what you were telling them to do was to tell FHA to "go to hell"?

Mr. NEEL. That is your statement, Senator.

The CHAIRMAN. That is my statement, and I stand on it, and I think the record speaks for itself. And I want to say——

Mr. NEEL. I don't agree with it.

The CHAIRMAN. And I want to say that instead of cooperating with this committee, to uncover the dirt, what has happened—and we certainly have been factual and we have been fair—at no time have you ever offered to be, at any time, to be cooperative with this committee.

Instead you issued statements such as this, you have issued press releases and as far as I know, to this date, as an association, you as an attorney, have never turned your hand, and have never assisted one iota, anything that has actually happened in respect to this investigation.

Mr. NEEL. I don't think that is an accurate statement of what has occurred, Mr. Chairman. May I make a comment on it?

The CHAIRMAN. You may.

Mr. NEEL. In the first place, the letter which was addressed to the members of my association, which you have just read—

The CHAIRMAN. Let me ask you this question: Have you ever written a letter to them suggesting that they cooperate with FHA or this committee?

Mr. NEEL. I was attempting to answer your other question and in answering that, I will answer the question you have just asked.

The CHAIRMAN. Isn't it a fact that when we started the investigation in this committee that you issued a press release which was very, very critical, which not only criticized the committee but the President of the United States?

Mr. NEEL. That is not correct, Mr. Chairman. We never issued any such press statement. We issued a statement which criticized the manner in which Mr. Hollyday was dismissed as Commissioner of the Federal Housing Administration. That statement was issued before your committee had any investigation or started any investigation. And since the date your committee started its hearings, we have made no public statements of any sort regarding the conduct of the operations of your committee and it would have been presumptuous of us in my opinion to do so.

As a matter of fact, I have made a complete review of the literature on the subject which was published either by my office or the Chicago office of the association, and I have all the literature available if you wish me to read it, which I think is really beside the point, but it does show that in no instance, in any literature published by this association, have we been critical of the conduct of this investigation.

The CHAIRMAN. Would you like to make it a part of the record? Without objection, it will be made a part of the record.

(The information referred to follows:)

[Washington News Letter, No. 141, issued June 23, 1954]

#### REORGANIZATIONAL BOMBSHELL

After the time had passed within which a formal reorganization plan for HHFA could be considered this year according to the procedures of the Reorganization Act, a sweeping modification of the authority of the HHFA Administrator was accomplished in a rider to the independent offices appropriations bill, which was passed on June 17.

Introduced by Representative Phillips (Republican, California) as an amendment during the consideration of the conference report on the bill on the floor of the House, the rider provides:

"\* \* \* the Administrator's general supervision and coordination responsibilities under Reorganization Plan No. 3 of 1947 shall hereafter carry *full authority to assign and reassign functions, to reorganize and to make whatever changes*, including the reallocation and transfer of administrative expense funds and authority where applicable, necessary to promote economy, efficiency, and fidelity in the operations of the Housing and Home Finance Agency." [Emphasis supplied.]

The Phillips rider was introduced without notice and passed without debate and sent to the Senate, along with the whole appropriations bill, where it was passed a day later, again without explanation of its meaning or discussion of its effects.

This is legislation in an appropriations bill with a vengeance. A similar effort, attempted a year ago, was blocked when FHA Commissioner Hollyday discovered what was intended. It now becomes an accomplished fact over the known opposition of the diverse interests in the building and lending fields, without the opportunity for public hearings or consideration by the congressional committees designated to deal with reorganizational proposals.

#### EFFECTS OF THE RIDER.

There is no question that the rider gives the HHFA Administrator virtually complete authority over the constituent agencies and leaves the Commissioners of FHA and PHA and the Home Loan Bank Board only with such functions as are either specifically delegated or not specifically withdrawn.

The extent to which this authority will be exercised is, of course, not known. Administrator Cole has issued a memorandum stating that the purpose of the rider is to assure the coordination of policy and operation essential to an efficient carrying out of the urban renewal provisions in the pending legislation and that it does not change the statutory functions of the constituents.

It may be inferred from this that the operations of the Home Loan Bank Board will, at least, not be immediately affected. On the other hand, because of the proposed new sections 220 and 221 of the National Housing Act, which are closely related to urban renewal, as well as the discredited position in which FHA has been put in congressional and public eyes, that agency is likely to be pretty fully dominated by HHFA. This view is supported by the fact that already control of FHA investigations, much of the authority over personnel, and approval of title I claims have been quietly taken over by HHFA. The language of the rider seems broad enough to make any more specific transfer of statutory authority unnecessary in order to accomplish such centralization as may be deemed advisable.

#### FHA INVESTIGATION CONTINUES

Senator Capehart has announced that the Senate Banking and Currency Committee on June 28 will resume its investigation of FHA's 608 operations with Deputy HHFA Administrator William F. McKenna (who has been placed in charge of the administration's own probe of FHA affairs) as the first witness. The hearings will continue at least to the end of the session and will cover all aspects of the FHA operation. Indications are that builders involved in 608 projects will be called as witnesses. Some of the hearings will not be public.

In the meantime (June 11), Administrator Cole has released the names of corporations involved in 70 projects financed under the provisions of section 608 of the FHA statute which are alleged to have obtained "windfall" profits, with the statement that these cases have been or are being referred to the Department of Justice "for such civil or criminal proceedings as may be indicated by the circumstances of each case." Mr. Cole did point out that a "windfall" did not itself imply any illegal act or other irregularity.

#### REPERCUSSIONS OF THE FHA INVESTIGATION

As part of a loophole-plugging operation, FHA Commissioner Mason issued in May an order forbidding any corporation organized under sections 207, 608, 803, and 908, to declare dividends out of capital or to make any changes in capital structure. This was followed, on June 17, by an order requiring all housing corporations with properties financed under section 608 to submit in great detail information relating to the construction cost of the properties.

Authority for these actions was based apparently on provisions in the corporation charters giving the FHA Commissioner, as holder of certain shares of preferred stock, the right to require answers to specific questions "relative to the income, assets, liabilities, contracts, operations, and conditions of the property, and the status of the insured mortgage, and any other information with respect to the corporation or its property which may be requested."

Inquiry of those who originally drafted this form of charter reveals that this language was intended to refer to matters arising out of the operation of the property after completion and did not relate to construction cost, over which

FHA, depending on the expertness of its appraisals, did not assume jurisdiction.

As a result of the "windfall" disclosures, tenants in two New York FHA rental projects have attempted to obtain rent reductions, claiming that the result of the alleged inflated cost was to place the rents at levels higher than would otherwise have been permitted. In both cases the New York Supreme Court decided against the tenants on the grounds that neither the statute nor the regulations contemplate downward revisions of maximum rents on the basis of actual construction costs, and that tenants have no right or interest in respect to mortgages, ground rents, or profits earned by their landlords but are simply parties who must live up to their contracts.

In a California case relating to a defaulted FHA title I loan, the court ruled that the bank making the loan could be made party to a suit by the Government to recover, on the plea of the United States district attorney that the institution had used bad judgment in making the loan. Trial date has not yet been set. The situation is being closely watched by MBA counsel.

#### THE LEGISLATIVE TANGLE

Because of delay in the pending housing bill (H. R. 7839), Senator Capehart introduced, on June 22, a joint resolution (S. J. Res. 167) providing for a 1-month extension of FHA's titles VIII and IX, FNMA, the VA direct lending authority, and farm housing, all of which would expire at the end of this month.

Although the House has agreed to go to conference on the housing bill, there is no chance that the conference committee will meet until after July 4, the only question being how long after. This makes certain that the bill cannot be passed much before the end of July at best, with the real possibility that action will be crowded against adjournment. There is beginning to be some talk that the bill may be dropped in favor of a further continuing resolution.

As matters now stand in respect to the crippling amendments referred to in newsletter No. 140 and letter to members No. 22-54, the probabilities are as follows: Some modification of the excessive coinsurance proposal for FHA title I; dropping of insurance of loans on trailers; restoration of authority to insure existing property mortgages on the same terms as new; dropping permission of "equity" loans for low-priced FHA houses; replacement of the term "substantial" conformity in connection with the builders' warranty; dropping of the amendments offered by Senator Byrd.

Efforts to work out a practicable substitute for the cost certification and renegotiation requirements in connection with insured rental housing mortgages have not been successful, although the provision in the Senate bill may be modified to conform more closely to that now applicable to mortgages under titles VIII and IX. At this late stage, the prospect is that no agreement will be reached about a secondary market facility other than a standby continuance of FNMA.

#### THE PUBLIC HOUSING SITUATION

The future of the public housing program has become snarled in the racial issue, brought to the fore by the Supreme Court's decisions banning segregation in public schools. Some Negro leaders have effectively raised the cry that a vote against public housing is a vote for segregation, thus placing many of the northern legislators in an uncomfortable spot. Also present, though beneath the surface, is the possibility of an effort to apply some antisegregation provisions to FHA activity.

This situation in part accounts for the rapidity with which the housing bill, despite many dubious features, was passed by the Senate. It was no doubt a consideration influencing the House to send the bill to conference without specific instructions limiting the amount of public housing to be approved. It may also become an argument for deferring action altogether in favor of continuing the status quo. If this should eventuate, it would be possible to put under construction during the 1954-55 fiscal year the 35,000 or so public-housing units for which contributions contracts have been entered into, and probably to prepare for another 35,000 units for the following fiscal year.

#### ADVISORY GROUP MEETS ON VOLUNTARY CREDIT EXTENSION

On June 18, Administrator Cole met with representative mortgage, savings, and commercial bankers, savings associations, and life-insurance companies to discuss operating policies under the proposed National Voluntary Credit Extension

sion Committee plan to be set up under title VI of the pending housing bill. MBA was specifically represented by President Clarke and General Counsel Neel.

All present were in substantial agreement that, while committee members should meet their own expenses, an adequate staff should be provided by the Government, that meetings should be held at frequent and regular intervals, and that no alternates for members should be permitted. The group strongly expressed its view that the national committee should be privileged to issue statements on policy whether or not in agreement with the chairman. It was recommended that the membership pattern of the regional committees follow that of the national committee as to builder and lender representation.

The group pledged the support of the program by all types of mortgage lenders, making clear, however, that the plan could not be operative unless interest rates were kept at marketable levels and mortgage terms conformed to sound banking practices.

#### BANK RESERVE REQUIREMENTS LOWERED

The reserve requirements of member banks of the Federal Reserve System will be lowered in a series of steps to be effective over the next 6 weeks. Reasons advanced for this action were the anticipated needs of funds for crop movement and fall inventory buying as well as the necessity for providing a strong backstop for Treasury financing after the beginning of the new fiscal year.

This action, which had been expected for a long time, assures that an ample supply of funds, at probably some reduction in going interest rates, will be prevalent during the remainder of 1954.

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[Washington News Letter, No. 139, issued May 20, 1954]

#### WHAT GOES ON?

On May 17, FHA Commissioner Mason submitted to the Senate Banking and Currency Committee recommendations that, in the opinion of industry leaders, would end rental-housing financing under FHA. On May 18, the committee, having returned to its consideration of the housing bill, voted to restore the public-housing program to the maximum permissive limit of 135,000 family units a year.

Under these circumstances, it becomes a little difficult to comprehend administration policy. We have the peculiar spectacle of a supposedly business-minded administration following the counsels of the public-housing lobby rather than that of its business advisers. In fact, it will not be possible to know exactly what the policy is, let alone understand it, until a bill is finally agreed upon in a conference committee of both Houses.

The prospect is that the Senate will act before the end of the month and that the conference will follow immediately. The Senate seems likely to accept the new administration recommendations. The House will balk on the public-housing proposal and may moderate some of the extreme restrictions proposed for FHA.

#### COST CERTIFICATION FOR SECTION 207

In order to end abuses allegedly resulting from operations under FHA's section 608 (terminated in 1950), rigid cost-certification requirements will be applicable to section 207 and other multifamily project operations, if the Mason recommendations are accepted. The certification becomes a final means of limiting the amount of the mortgage after the project has been completed. Here are the proposals:

1. For section 207, the mortgage should not exceed 80 percent (or 90 percent if the number of bedrooms equals or exceeds 2 per apartment) of the sum of the certified actual costs plus the FHA estimate of the fair market price of the unimproved land.

2. For veterans' cooperatives under section 213, the limit would be 95 percent of building cost and estimated price of the unimproved land.

3. For section 221 apartment projects, the certification would be on a 100-percent basis.

4. For rental operations under sections 220 and 803 and nonveteran cooperatives under section 213, the limit would be 90 percent.

Appearing with a special committee of industry advisers assembled by Commissioner Mason on May 12, MBA President Clarke pointed out that post audit cost certification was foreign to private mortgage lending practice, that

it involved inequity and decreased incentive, that, because of all the difficulty in defining and determining cost, it was wholly impracticable. To complicate matters further, FHA would now be required to estimate, as a basis for final loan determination, the "fair market price of the unimproved land," rather than value in connection with a completed property. Since this is an even more difficult matter on which to make an unchallengeable judgment than building cost, it can only lead to endless dispute.

There can be little question that, with such a procedure in operation, the efficient builder would usually be able to obtain a better deal through a conventional mortgage of two-thirds without the delay, uncertainty, and exposure to criticism and attack to which he would be liable in his relations with FHA.

#### PROPOSED CHANGES IN FHA SALES HOUSING PROGRAMS

Commissioner Mason's recommendations for statutory revisions contained these provisions about sales housing:

1. The more liberal terms in the pending legislation should be limited to 1- and 2-family dwellings. Maximum limit on all other classes would be 80 percent.
2. Firm commitments to builders should not exceed 85 percent of the amount available to owner-occupants. This would mean that, where an owner-occupant could get a 90-percent loan, a builder could get no more than 76.5 percent.
3. Mortgages on section 213 sales co-ops should be based on value and meet the test of economic soundness.
4. The maximum mortgage limitations on section 203 should apply to sales-type co-ops, except that for veterans co-ops the ratios could be 5 percent higher.
5. A minimum 5 percent cash downpayment should be required on all sales co-ops, and the maximum term should be limited to 30 years.

In addition to the above, the Commissioner has asked for broader authority to proceed against persons who "willfully violate the letter or spirit of the National Housing Act" or the regulations thereunder, as well as for greater flexibility in handling administrative expenditure to meet changes in demand.

Note that no change is proposed for the 100 percent 40-year section 221 operation except to require cost certification in respect to rental housing loans made under its provisions.

#### TIGHTENING UP TITLE I

The most drastic recommendation offered by the Commissioner in respect to FHA's repair and modernization program would be to require that lenders carry defaults to judgment and take initial steps toward correction before being able to get the benefit of the loan insurance. An alternative of a 10-percent coinsurance, applicable each year to claims in excess of a certain fixed amount or ratio to total loans, is also offered.

Either of these proposals, by adding measurably to the cost or risk of the transaction, will tend to reduce volume.

Other title I recommendations are: Limit loans to essential home improvements; give the Commissioner more definite power to suspend participants in the program; limit the total amount of loans to any one borrower; strengthen the penalty provisions; limit approved lenders to publicly supervised institutions; increase the investigatory staff; carry on a program of consumer education; require the lender to tell the borrower the amount of the proposed obligation and to warn him against abuses; require salesmen to certify absence of abuses.

#### OUTLOOK FOR THE HOUSING BILL

It is almost a certainty that the legislation will contain the bulk of the recommendations described above. A fight may be made on the cost certification proposal, and while it may be somewhat watered down, the chances of eliminating it altogether are poor.

A builder's warranty provision, probably as already passed by the House, will be retained, but the anti-Communist certification probably will be dropped.

The maximum amount of a 95 percent home loan will undoubtedly be held to \$8,000, and the scale of loan-to-value ratios in the bill as introduced will be retained for 1- and 2-family structures.

The requested Presidential power to vary interest rates, downpayment requirements, and maturities has a poor chance of inclusion.

The FNMA proposal hangs in the air. While the balance is in favor of the setup included in the House bill, it is possible that the outcome may simply be

a temporary extension of the present FNMA. The provision for voluntary credit extension committees will be kept without substantial change.

The urban renewal provisions as passed by the House will be enacted, although, with the expected restrictions on FHA's rental housing and repair loan insurance programs, their effectiveness will be diminished. The fate of section 221, despite continued administration sponsorship, is somewhat uncertain. Some additional features, relating to smoke abatement and loans for community facilities, may be included.

The Senate committee's public housing proposal has no chance of final acceptance, but a 2-year, 35,000-unit per year public-housing program may, with a struggle, get through.

VA's direct lending authority will be extended.

The subsidized farmhouse loan and grant program under the 1949 act will be extended.

#### THE FHA INVESTIGATION

Although to date there have been no indictments in connection with the disclosure of alleged abuses under the FHA repair and rental housing programs, investigations are proceeding under the new HHFA Deputy Administrator, William F. McKenna and the Assistant Attorney General, Warren J. Olney, III.

The Byrd committee investigation of the section 608 cases continues. No evidence of criminal acts has been disclosed, and the number of cases of "windfall profits" has been substantially reduced.

While the Senate Committee on Banking and Currency is expected to delve further into past practices of FHA after the conclusion of its legislative work, no plans have yet been announced.

The cleanout at FHA is now about complete. Almost none of the former top officials remains. FHA President J. Stanley Baughman is temporarily serving as Acting Deputy Commissioner. Herbert Welch, formerly of the HHFA staff, has moved in as Director of Information. Charles A. Bowser, whose appointment was announced prior to Guy Hollyday's resignation, has taken office as Director of Underwriting. Otherwise, no new permanent appointments have been revealed.

The focusing of attention on investigation and legislation has taken it off reorganization. Little apparently has been done toward completing the rumored HHFA reorganization plan during the past several weeks, although the matter does not appear to have been dropped. Since, to conform to the requirements of the law, a plan must be submitted to Congress 60 days before adjournment, it is evident that whatever is to be submitted must be handed up within the next week or two.

#### OTHER LEGISLATION

The tax bill is moving slowly through the Senate Finance Committee and will reach the floor toward mid-June.

The proposal (S. 975) to restrict branches of Federal savings associations to the same pattern as for State savings banks and associations branches is scheduled for early Senate consideration. Chances are 50-50.

Representative Wolverton (Republican, New Jersey) has sponsored H. R. 7700, to create a special mortgage insurance plan for medical facilities. Hearings have been held by the House Interstate and Foreign Commerce Committee. Passage this year is improbable.

Senators Anderson (Democrat, New Mexico) and Schoepfel (Republican, Kansas) have introduced S. 3339, authorizing the Farm Credit Administration to have the direct lending authority formerly exercised by the Land Bank Commissioner—first and second mortgages on real or personal property, including loan to co-ops up to 5 percent of value, or \$7,500 top limit. No hearings have yet been held.

#### THE STATE OF THE MARKET

The excitement in Washington appears to have been unnoticed in the market. Amid generally improving conditions, there is at least no evidence that investigations, allegations, or proposed legislative changes, have yet had any ill effect.

New private housing starts in April, at 109,100, exceeded any private monthly activity in 3½ years, and are now running at a seasonally adjusted annual rate of 1,159,000. A bigger production year than 1953 is almost assured. A final total figure for 1953 of 1,103,800 has recently been announced.

FHA new home applications in April exceeded in number anything since last May, thus ending the lag that had been evident since the beginning of the year.

For section 203 activity alone, new applications were ahead of any month since 1950. Project applications, due to a volume of section 207 applications 2½ times that of the first 4 months of 1953, were substantially above last year's activity. Through April, title I operations showed no sign of adverse effect.

VA appraisal requests during the last 3 months were higher than during any previous time since October in 1950, the month of the big preregulation X push. Total for the first 4 months of 1954 reached 133,960, compared with 77,460 for the corresponding period a year ago.

The farm situation remains clouded, with evidence of improvement or at least stability being countered by signs of further decline. Farm lending by insurance companies is down, but only by 1 percent. Farm real-estate values, according to the Department of Agriculture, drifted moderately lower during the first quarter of the year. Although values in most of the North Central States held up well, declines elsewhere reduced the average for the country to 2 percent below last November and 6 percent below March of 1953.

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[Washington News Letter, No. 138, issued April 30, 1954]

#### HOLLYDAY LEAVES FHA

Since the events which began April 12 MBA officials have been active daily in an effort to represent the interests of the association and all its members in the present controversy. Other than Mr. Clarke's statement of April 12, which was sent to all members, no report has been made to the membership since the evidence was not all in and the facts not all known. While all the facts are still probably uncertain, the Senate Banking and Currency Committee's hearings are over, and, therefore, we have about as much information as will be available for some time.

Although the news of the abrupt dismissal of FHA Commissioner Guy T. O. Hollyday on April 12 and the subsequent investigation of FHA activities by the Senate Banking and Currency Committee has been widely carried, the conduct of the Administration remains inexplicable even after 2 weeks of effort to obtain and weigh the facts.

The best light that can be put on the episode is that precipitate action was taken on the basis of unwarranted suspicions concerning Hollyday developed by the Department of Justice. These derived from the circumstances that (a) the undermanned FHA investigatory staff had not reported on derelictions in the title I operation to the extent that Justice considered them to exist, (b) the FHA had not proceeded to investigate windfalls in the section 608 operation, (c) the resignation of a man had been accepted while his record was under investigation.

No consideration was given to the facts that Hollyday was a man of unimpeachable integrity; that he had sought and been denied funds needed for investigatory work; that, despite the inadequacies of his investigators, Hollyday had moved vigorously to prevent the continuance of alleged abuses in his December regulations; that the so-called windfalls in 608 operations were matters beyond the Government's reach except in cases of tax violation or personal collusion; that Hollyday had requested Justice to make investigations in the latter connection and, receiving no response, had proceeded to remove the person in question.

Hollyday was never informed that Justice had facts on FHA operations not known to him, and there is no evidence that at any point anyone insisted that Hollyday be kept informed or otherwise stood at his defense. On the contrary, the evidence to date clearly shows that an intentional decision was made not to advise Hollyday of what was going on and not to give him an opportunity to answer any questions concerning his administration of FHA.

#### THE REPERCUSSIONS

As the dust settles, it begins to be possible to judge the effects of these events:

(a) *On Hollyday.*—Despite the personal unpleasantness of the experience, the nationwide response of his friends and the several prompt offers of important jobs indicate that Hollyday's fine reputation has not suffered. He returns to Baltimore as chairman of the board of the Title Guarantee Co.

(b) *On the administration.*—By focusing attention on Hollyday's supposed shortcomings instead of upon those of former officials, the administration succeeded in dropping a bomb in its own camp and lost whatever political advantage might have been gained from a less clumsy maneuver. In addition, it has undoubtedly alienated numerous influential supporters who cannot help but consider that an injustice has been done.

(c) *On the FHA.*—Firings, resignations, suspensions have stripped FHA headquarters of such experienced personnel as Walter Greene, B. C. Bovard, Howard Murphy, and Arthur Frentz, leaving the new FHA Commissioner Norman Mason at considerable difficulty in conducting official business. Fortunately this sort of thing has not extended to the field offices, where no serious interruptions or uncertainties are reported.

Some features of the disputed reorganization plan have incidentally been put into effect with the seizure of FHA files, the transfer of all investigatory activity to HHFA, and the increased jurisdiction over FHA personnel matters by the HHFA Administrator.

(d) *On construction.*—New single-family housebuilding is not likely to be affected by the upset. FHA applications during the third week in April rose to a high for the year, continuing a strong upward trend and surpassing any single week's volume since last May. FHA rental housing activity seems certain to be reduced, but this eventuality would not greatly affect total volume. Repair and modernization work may be temporarily hurt; and here much will depend on how quickly the prestige of the FHA title I system can be restored.

(e) *On legislation.*—Immediately after the April 12 flareup, Chairman Capehart, of the Senate Banking and Currency Committee, opened hearings to obtain suggestions as to how the pending housing legislation might be modified so as to prevent recurrence of the alleged abuses in the FHA operations. After holding sessions during 2 weeks, the committee has now withdrawn, giving little indication of what it will do to the bill.

Since there is wide agreement that the Hollyday regulations will get the title I situation under control, it is likely that the least that will be done will be to include these in the law. However, more crippling amendments may be added, and at least one member of the committee has stated he will move to abolish the program entirely. Some form of cost certification is certain to be applied to rental and co-op housing. The liberalization in loan terms for titles I and II may be less than formerly expected, and the 100 percent mortgage feature of the proposed section 221 may be dropped.

It will probably be at least 3 weeks before a bill is reported and early June before one is passed, if indeed a housing bill comes up at all for final consideration by this Congress.

#### MBA'S TESTIMONY

Responding to Senator Capehart's invitation to testify at his hearings, MBA's executive committee, assembled for the directors' meeting at Colorado Springs, held a special session to determine the context of the testimony and directed General Counsel Neel to fly overnight to Washington to comply with the assigned date.

Mr. Neel recalled for the Senator's attention MBA testimony in 1950 opposing an extension of section 608 and pointing out dangers inherent in it. He expressed the belief that, while the current rental housing operation was not exposed to the same degree of risk, the cooperative program was, and urged equalizing the terms as between sections 207 and 213. He opposed the cost-certification idea. He said that the Hollyday regulations were adequate to protect the repair and improvement loan operation.

Restating Mr. Clarke's testimony of the previous month, Mr. Neel showed the section 221 proposal to be subject to the abuses claimed for the section 608 activity, and that the danger would be increased by the kind of bailout FNMA provided in the new bill. He opposed the increase of the limit of 95 percent loans to \$10,000 as included in the House bill. He urged that FHA's investigative funds be increased and that independence of FHA from supercontrol was the best way to assure responsible administration.

A copy of Mr. Neel's statement is enclosed for your information as are copies of the statements of Mr. Hollyday and Mr. Murphy. The complete text of the Senate hearings will be available shortly and may be secured by writing directly to the Superintendent of Documents, Washington, D. C.

## CONTINUED INVESTIGATIONS

The going-over of FHA promises to be a continuing function for some time. The Senate Banking and Currency Committee has obtained \$150,000 for the purpose. HHFA Administrator Cole has asked for an equivalent amount for the same purpose. The Department of Justice is proceeding on its own account. The Internal Revenue Service has its investigation well underway.

Where all this will lead or what it will turn up, no one can surely say. The battle against the abuse of title I has been a long one and even the Assistant Attorney General has said that successful prosecution is difficult. The Internal Revenue Service has indicated that its quarrel on the 608 cases is a technical one and that evidences of criminal acts have not turned up. Collusion may be discovered in respect to specific projects, but old hands are skeptical.

Important to recognize is that, by past legislation or recent regulation the possibilities of abuse have been greatly reduced. Moreover, with this experience on the record, it is not likely that the investigative function will soon again be so starved as to prevent adequate policing.

Finally, it has to be emphasized that, against the vastness and complexity of the FHA operation, the number of cases where excesses occurred or unlawful acts were involved is gratifyingly small. While these cases must be pursued to their resolution, the caution expressed in the MBA testimony should be kept to the fore: "It would be tremendously unfortunate if in the heat of controversy we should permit this country to lose confidence in the FHA program and to destroy its future usefulness."

## THE NEW FHA COMMISSIONER

The one reassuring factor in the situation is the new FHA Commissioner, Norman P. Mason. Mr. Mason, a successful materials dealer of Chelmsford, Mass., has, during the past several years, devoted most of his time in one way or another to the service of the construction industry.

As president of the National Retail Lumber Dealers Association, director of the Chamber of Commerce of the United States and head of its construction and civic development department committee, spokesman for the chamber on housing legislation, member of various governmental advisory groups, including the President's Special Housing Committee, Mr. Mason has gained the esteem and confidence of men in all branches of building and mortgage-lending activity. He brings to the job the advantages of his broad acquaintanceship with the industry and familiarity with the FHA operation.

It should be clearly understood that Commissioner Mason was in no way a participant in the events leading up to the removal of his predecessor. Under extreme pressure from the administration, he assumed the task of restoring a badly rocked institution, and he will have the support and cooperation of his many friends in this effort.

## MASON'S POSITION

The new Commissioner's point of view is conservative and his attitude toward FHA has always been one of wishing to preserve its sound business character and to keep it from fringe activities that would threaten its financial integrity.

To this end he has supported the proposition of separating the administration of the Government's credit functions in housing from those dealing with subsidies and must be considered a stout advocate of the independence and responsibility of FHA. The views of the pending legislation expressed by him on behalf of the national chamber closely paralleled those of MBA.

Mr. Mason endorsed the idea of a flexible interest rate for FHA and VA mortgages. He stood by the advisory committee proposal for rate control by a statutory committee rather than by the President and suggested that the Presidential controls of other mortgage terms and conditions "could be eliminated from the legislation without loss." He endorsed the modifications in the FHA loan-to-value schedule as in the bill as introduced, the increase in the maximum mortgage amount, the equalization of terms for new and existing construction, the increases in title I loan limits, and the open-end mortgage.

While approving the idea of establishing a permanent secondary mortgage market facility, Mr. Mason indicated a preference for features and limitations of the plan proposed by the advisory committee rather than those in the bill. His view of section 221 was that "with the other proposed changes in section 203 \* \* \* this special type of loan will not be needed."

## SIGNS OF SPRING IN BUSINESS

Amid the alarms and excursions described above, the mortgage business, supporting and supported by a volume of construction surpassing that of last year, has been going vigorously forward. The supply of savings has not only steadily increased but has also been made available in greater amounts by all types of lending institutions. Interest rates have continued to decline—latest evidence, the dropping of discount rates by all the Federal Reserve banks. The 4½ per cent FHA and VA rate is again taking the business without great difficulty.

In other sectors of the economy, signs of a leveling of the decline have become fairly convincing. Total employment has been increasing during the last few months; the recent increase in unemployment has been slight. Inventories appear to be coming into better balance as salesmanship gets more vigorous. Bad spots remain in the automobile, automotive parts, and household appliance fields, but no serious worsening has appeared.

Particularly encouraging are the indications of improvement in the farm area, showing up in a strengthening of the market for farm equipment. A number of large concerns report a leveling-off of the 2-year decline in sales. Best conditions are reported in the corn and hog regions. Farm mortgage activity by life-insurance companies has been larger than a year ago.

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[Advance proof of an editorial from the May 1954 issue of House and Home]

## NOW IS THE TIME TO SPEAK UP FOR FHA

## AN EDITORIAL

A little knowledge is a dangerous thing. Seldom has that truism been demonstrated more sadly than by the harm the well-meaning President has just wrought in the housing field.

For this we cannot blame the President. He has too many other responsibilities to study and understand the intricacies of Government relationship with any one industry—even though this industry is growing to be America's biggest and most dynamic, even though it is the outstanding example of what intelligent collaboration between Government and business can achieve at no cost to the taxpayer.

But why was there no one among the White House advisers with the knowledge and courage to tell him the FHA "scandals" he has helped spread all over the front pages are an old story full of dangerous and misleading half truths, an old story that looks very different when all the facts are told? (See box below.)

Why was the President allowed to be a party to the flood of misleading headlines and occasional outright falsehoods that have discredited the whole home-building industry and the whole Federal Housing Administration in the eyes of millions of uninformed readers?

"The reasons \* \* \* as announced are unbelievable to anyone familiar with the operations of the FHA—" was the unanimous verdict of a conference of the Mortgage Bankers' Association. Was it necessary to burn down the whole forest to drive out a few wolves?

This was no sudden revelation of danger and evil. Indeed, the only call for haste was to beat a Democratic Senator to the gun on an exposé which would have hurt the Democrats more than the Republicans.

## CONSIDER NOW THE RESULTS OF THE PRESIDENT'S ACTION

1. The President has made his own Republican appointee the scapegoat for "scandals" under the Democrats 5 years before the scapegoat took office.

2. He has pilloried one of the most upright and honorable business leaders he had been able to bring into his administration and so warned businessmen everywhere to stay out of Government service lest they too be sacrificed to make a Roman holiday.

3. He has endangered the whole housing program of his own administration—a program whose importance to better housing it would be hard to overestimate, a program which could have been the Magna Charta of slum rehabilitation and housing conservation, a program history might have recorded among his administration's outstanding achievements in the domestic field. And he timed his attack to the very moment when the program, after months of study, seemed

assured of passing both Houses of Congress within a matter of weeks.

4. He has upset a significant experiment in industrial democracy inaugurated by his own administration—an experiment in which the best brains in the industry were called in consultation and worked night and day to reconcile their often-conflicting interests behind a program from which the home-owning public had more to gain than the home-building industry.

5. He has weakened the strongest single support on which his administration was counting to sustain prosperity in the present business decline—the high volume of home-building that generates good business in so many other lines.

Money lenders are notoriously timid about investments which may be subject to such public criticism as has just been heaped on high-percentage mortgages—and without high-percentage mortgages most families must drop out of the market for homes.

This magazine is no apologist for abuses in FHA. On the contrary, this magazine has done more than any other agency, public or private, to put the faults of FHA clearly on record so they could be corrected, and if the President could have found time to follow our pages regularly he would have known all about the criticisms of 608 financing and all about the troubles with title I repair loans. He would also have known the reasons for the troubles and the steps long since taken to correct them.

For example, 52 months ago—in January 1950—this magazine (then part of Architectural Forum) published what is still recognized everywhere as the definitive critique of the apartment-house boom financed under FHA section 608—a critique headlined “Private Profit and Public Risk.” This caused a furor in Congress and was one principal reason section 608 was not continued.

Last fall we spelled out in so many words how “consumers are being swindled out of millions of dollars in the field of home improvement \* \* \* on a loophole in Federal law.” That report played at least some part in the stricter title I regulations Commissioner Hollyday issued.

We have recognized rare signs of fraud in some FHA offices and at least once we went much further than the libel laws allowed to point a finger at the suspects, and just 2 months ago we gave 12 pages to a roundtable report detailing the harm some of FHA’s appraisal policies and practices were doing.

Because we have never condoned what is wrong with FHA we are proud to be the first to reaffirm that:

1. FHA is the best thing that ever happened to the home-buying public. It has enabled millions of families to own far better homes than they could otherwise afford. FHA has enabled home building at long last to enter the industrial revolution with all its promise of progress and economy.

2. FHA is the No. 1 example of Government and business partnership at no cost to the taxpayer.

3. FHA offers the only firm foundation for redeveloping our slums and reversing the spread of blight through private enterprise with private capital.

4. With few exceptions FHA has been staffed by devoted public servants, many of them working for much less than they could earn in private enterprise.

Now is the time for everyone else who knows and understands and values what FHA has done for the country to speak up clear and bold.

There is no use crying about the harm and injustice that has just been done. We are fortunate that a man of Norman Mason’s experience and character has been willing to take charge at FHA at such a moment. Now is the time for all good men to rally behind him and salvage what can still be salvaged of the program that was so incontinently and inexplicably wrecked.

HERE ARE TWO DANGEROUS HALF-TRUTHS THE PRESIDENT MIGHT HAVE EXPLAINED

#### *Half-truth No. 1*

FHA insurance under section 608 enabled many apartment builders to get mortgages for more than their total cost.

#### *The whole truth*

For all its faults the 608 program was an outstanding success in achieving the goals set by Congress and the President. “By harnessing the most acquisitive aspects of private enterprise” it broke the back of the postwar housing shortage.

So far this program has not cost the taxpayers a penny, and there is no longer any good reason to believe it ever will. On the contrary it saved the taxpayers hundreds of millions of dollars they might otherwise have had to spend to achieve the same goal through public construction.

The 608 program can be understood only by remembering the tremendous clamor for new housing after the war, when returning veterans were sleeping on park benches, living in Quonset huts, and doubling up in their parents' attics. Expediter Wilson Wyatt was making new headlines each day with new schemes to get home-building started. Of all the schemes he tried, section 608 was the only one that paid off big in the end. Said our editors 52 months ago: "This combination of public risk and private profit is perhaps the only way an apartment boom could have got started under rent control, which suspends the normal action of supply and demand on all postwar housing." Though many of the section 608 loans insured by FHA were bigger than the cost of the project, few have gone into default, and most of these have been put back on a paying basis. All the 608 loans have now been substantially reduced, and with each passing year the danger of large scale default gets smaller. Meanwhile the FHA insurance reserves against such defaults are piling up.

When the need for section 608 passed, Congress allowed it to lapse in 1950.

#### *Half-truth No. 2*

The public has been defrauded out of millions of dollars on repair and modernization jobs financed under FHA title I.

#### *The whole truth*

Title I has enabled some 2 million homeowners a year to finance home improvements they could not otherwise have afforded. Some of these homeowners have been overcharged for shoddy jobs, usually by racketeers masquerading as honest contractors.

Congress never had any idea that FHA could guarantee homeowners against poor workmanship or excessive charges whenever they decided to repair the roof or install a new bath. And so Congress allowed FHA only three inspectors (increased last year to six) to check up on all these jobs—jobs which averaged 1,200 a day per inspector.

Congress had expected the banks which made the title I loans (at 9.6 percent interest) to assume primary responsibility for policing title I. When many of them failed to do so Commissioner Hollyday issued new regulations last fall fixing their responsibility clearly. Thereupon Administrator Cole congratulated him on his "straightforward approach to the problem," and the President's own advisory committee on housing policy said: "These new regulations will correct the abuses and no further requirement should be imposed at this time \* \* \* A mandatory inspection requirement would be unworkable and would serve only to curtail drastically the scope of the title I program."

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[Letter to Members, No. 17-54, issued April 14, 1954]

To: All members.

Subject: Resignation of Guy T. O. Hollyday.

DEAR MEMBERS: You will find enclosed a copy of the statement issued by me as president of the Mortgage Bankers Association of America following the announcement of Guy Hollyday's resignation as Commissioner of the Federal Housing Administration.

To the extent that your own sentiments are reflected by this statement you should feel at liberty to express yourself to your Senator, Congressman or to the White House. The removal of Mr. Hollyday came as a complete surprise to all in attendance at the Eastern Mortgage Conference in New York. Many of our board of governors and some of our executive committee were available for their counsel. The urgency of the situation in my opinion required an immediate statement of our position.

Should you give expression to your ideas please send copies to our headquarters office in Chicago and tell your officers how you feel as to the action taken.

Very truly yours,

W. A. CLARK, *President.*

Upon hearing of the resignation of Guy T. O. Hollyday as Commissioner of the Federal Housing Administration, W. A. Clarke, president of the Mortgage Bankers Association of America, today (April 13) issued the following statement:

"The forced resignation of Guy T. O. Hollyday as Commissioner of the Federal Housing Administration is unwise and unjust. In Mr. Hollyday's resignation the administration and the entire country have suffered a great loss.

"We are indignant at his abrupt dismissal. This move reflects discredit not upon Mr. Hollyday but upon the administration. The reasons for Mr. Hollyday's dismissal as announced are unbelievable to anyone familiar with him or with the operations of the FHA.

"It is well known that the alleged abuses in the emergency apartment-house program relate to an activity which was ended and terminated by the Congress in 1950, long before Mr. Cole and Mr. Hollyday were appointed in their positions. It is also well known that the misuse of the home improvement and repair program has been under intensive investigation by Mr. Hollyday. Contrary to the published statements, this association knows what tremendous strides Mr. Hollyday has made in less than a year in strengthening the FHA.

"In our opinion, Mr. Hollyday's resignation has been forced not because of any indifference to abuses of the FHA system even though that is the announced reason. We wonder whether the real motive behind this summary firing is the fact that Mr. Hollyday is known to have opposed the administration's plan to transfer from the FHA to the Housing and Home Finance Agency the authority and responsibility placed by the Congress with FHA. The effect of Mr. Hollyday's firing is to remove a man who opposes this centralization of control which he believes to be wrong and the weakening of the agency he was appointed to administer.

"Mr. Hollyday's summary dismissal will be resented by everyone who knows him, knows what he stands for and what he has endeavored to accomplish for the administration. It is a blow to good government and to the cause of enlisting intelligent and honest people in government."

[Letter to Members, No. 27-54, issued July 13, 1954]

To: All members.

From: Samuel E. Neel.

Subject: Interim report on FHA investigations.

DEAR MEMBER: Recent MBA News Letters have contained some information describing the current FHA investigations, and their effect upon the proposed Housing Act and the operations of FHA.

It has been suggested, however, that this special letter to members be circulated in order to describe in more detail recent events in this field.

I. Operations of FHA: Following Mr. Hollyday's dismissal on April 12, the President appointed Mr. Norman P. Mason as Acting Commissioner of the Federal Housing Administration. Mr. J. Stanley Baughman, president of the Federal National Mortgage Association was temporarily assigned to assist Mr. Mason.

Also on April 12, HHFA Administrator Cole announced the appointment of Mr. William C. McKenna as Deputy Administrator in charge of the FHA investigation. The investigative staff, which had formerly been attached to FHA was transferred and placed under Mr. McKenna's control. As Mr. McKenna's investigation proceeded, his offices were moved to the FHA building itself. According to a statement made before the Senate Banking and Currency Committee, there are now approximately 95 investigators operating under Mr. McKenna's direction.

From time to time following Mr. McKenna's appointment, various of the former FHA policymaking officials were dismissed or suspended. At the end of June, Acting FHA Commissioner Mason announced major changes in the organizational setup of his agency. These call for 4 assistant commissioners (Technical Standards, Programs, Operations, Administration), 3 directors (Public Information, Minority Group Housing, Examination and Audit), and a General Counsel, all reporting directly to the Commissioner.

The Assistant Commissioner for Technical Standards will direct an Appraisal and Mortgage Risk Division (Underwriting) and an Architectural Standards Division (corresponding to the prewar Technical Division). Programs will involve the Research and Statistics Division and "formulating and appraising FHA programs in the light of objectives set by the Congress." Administration will take in the functions of comptroller, personnel, general services, and budget.

The Assistant Commissioner of Operations will carry the full responsibility for executing all operations in the field including the duties formerly exercised by the assistant commissioners for title I underwriting and rental housing. He will thus man the central point for the entire program.

Aside from Assistant Commissioner Charles A. Bowser (Technical Standards), none of the top jobs and few of the second-line jobs have been filled. The following positions are among those still vacant: (1) Deputy Commissioner; (2) General Counsel; (3) Assistant General Counsel; (4) Assistant Commissioner for Administration; (5) Assistant Commissioner for Operations; and (6) Assistant Commissioner for Programs.

Commissioner Mason is attempting to find candidates to fill these positions, a job which is understandably difficult under today's conditions. Mr. Mason's own nomination as Commissioner is now before the Senate Banking and Currency Committee, and hearings on his confirmation are expected to be held within the next few weeks.

From the above analysis it will be seen that with the exception of the large staff devoted to investigative functions, the FHA headquarters office in Washington is operating with a skeleton staff of policymaking officials. The effect of such a situation on the business of FHA is difficult to assess and will probably be felt and make itself evident to members in the field more quickly than it will to observers in Washington.

II. The FHA Investigation: For reasons of convenience, the FHA investigation can be spoken of as such. Actually one of the confusing aspects of this situation is that there are at least three separate and distinct investigations now being conducted, these are: (1) The internal investigation of FHA practices and procedures which is being conducted by Mr. McKenna; (2) the investigation now being conducted by the Senate Banking and Currency Committee, and (3) the investigation which is being conducted by Senator Byrd as chairman of the Joint Committee on Reduction of Nonessential Federal Expenditures.

Certain information about Mr. McKenna's internal investigation was made public in his latest testimony before the Senate Banking and Currency Committee. This will be described briefly hereafter. Other aspects of his investigations have not been made public, and, therefore, it is difficult to report the extent of these investigations and what their ultimate results will be. It is understood that numerous builders and some lenders have been approached particularly with reference to operations under section 608 and title I. The 608 questionnaire distributed by Acting Commissioner Mason and which has been the subject of an earlier letter to members is an example of the procedures likely to be involved as this investigation progresses. Other information on this investigation is contained in a letter dated June 25, 1954, from Administrator Cole to Senator Byrd, printed in the Congressional Record of June 30, 1954, which reads, in part, as follows:

"\* \* \* For various reasons, including a test of our sampling process, a questionnaire has been directed to all section 608 projects. A copy of that questionnaire is enclosed. Failures to reply satisfactorily to that questionnaire will, in the least, indicate a possible need for further investigation of the nonresponding corporation. The responses to the questionnaire will also provide overall statistics as well as individual case data.

"Substantially the same program is in process with respect to section 207, section 213, section 803, and section 908 operations of FHA, except that no questionnaires have yet been directed. In addition, more limited studies are in progress with respect to section 608-10, section 609, and section 611. The investigation covers the use of section 203 for multifamily rental housing projects, and, in a much more general way, the section 203 program of FHA. \* \* \*"

The investigation of the Senate Banking and Currency Committee is under the control of Mr. William Simon, who was employed by the committee especially for this purpose. It is understood that the committee investigative staff has also been conducting field investigations of its own.

On June 28, 1954, the committee, following a number of executive sessions, began a second series of public hearings focused on the financial arrangements of rental projects financed under section 608.

As the first witness in this series of hearings, Mr. McKenna produced for the committee the details of 29 section 608 projects in which mortgage loans had been made in excess of actual projects costs. Many of these situations have been reported extensively in the newspapers.

Mr. McKenna also produced for the committee a report on instances where builders had allegedly violated the minimum-wage provisions of the National Housing Act without effective prosecution by FHA.

Following Mr. McKenna's testimony, the committee called as witnesses the officials of a number of 608 corporations. The testimony so far shows how the omission in the 608 regulations of two significant clauses which were in the 207

regulations could have produced unusual profits in the few instances out of the total where builders took advantage of their absence.<sup>1</sup> These provisions were (1) the prohibition against liens other than the mortgage, (2) the prohibition against the redemption, purchase, or paying off of any stock or interest in the corporation except with the Commissioner's approval.

The first of these omissions permitted corporations to obtain their risk funds in the form of loans rather than of stock investment, thus reducing their corporate tax liability by the creation of an interest charge, and permitting the corporation to be capitalized with a minimum of paid-in capital.

The second permitted a close identity of the owning and building operations, the retention of funds ordinarily paid out for building services, and, in the end, the distribution of all such funds in the form of a capital gain rather than of income.

Without passing on other aspects of these transactions, it is plain that the visible effect would be to give the appearance of a very low base against which to figure profit at the same time that it showed what seemed to be a very high profit. Even in the most spectacular cases a much more normal profit ratio would have been revealed if the project (as the majority of 608 projects were) had been subject to the section 207 procedure. Also the Government's tax take would have been increased.

Other matters stressed in the recent hearings were: (1) The promotional activities of one lender, which is said to have organized projects and advanced funds for land purchase and other initial expenses, as well as provided the mortgage funds; (2) the alleged failure of FHA to enforce the prevailing-wage requirement under section 608; (3) the avoidance of the \$5 million project cost limitation, and (4) the conversion of 608 projects to accommodate transients.

After temporarily closing the hearings on July 2, Chairman Capehart announced that, beginning July 12, hearings would be resumed in Washington at which time former FHA officials may be called. Mentioned were former Commissioners Raymond W. Foley and Franklin D. Richards, former Deputy Commissioner Walter Greene, and former Assistant Commissioner Curt Mack. Additional testimony will also be taken from section 608 participants.

Following the Washington session, Chairman Capehart stated that the Banking and Currency Committee would carry its investigation into a number of the largest centers of FHA activity, tentatively including New York, Cleveland, Columbus, Chicago, Los Angeles, Detroit, Baltimore, Philadelphia, and Dallas. These field hearings will delve into all aspects of FHA operations.

Senator Byrd's Joint Committee on Reducation of Nonessential Federal Expenditures continues its independent investigation of housing activities. While this committee has not held public hearings, its chairman has from time to time issued statements that reveal the direction of its probing. Attention currently is being turned to public housing and slum-clearance activities. Allegations are made of excessive payments for land assembly to avoid condemnation and connivance for private gain in slum-clearance operations.

From the above discussion, it will be evident that the FHA investigation will continue in one form or another throughout the summer and until the fall.

It is difficult for an observer in Washington to assess the permanent effects of the present investigations. Industry observers have been as much concerned with the effects of the hearings on FHA operations and on the pending legislation as with the method of conducting the current hearings. From this post it is difficult to judge what the disclosures are doing to FHA in the country generally, and comment from MBA members is solicited on such matters as morale and performance in local FHA offices, effects of recent rulings, current attitude of builder and lender toward participation in FHA programs. If the statistics on FHA operations can be taken as evidence, no adverse effect can be discerned. Although FHA's current activity continues to be lower than VA's, its applications during June covered 55,000 units, topping, for the first time in 12 months, the volume of the corresponding month in the previous year.

III proposed housing legislation: The conference committee on the housing bill (H. R. 7839), having finally been set up on June 17, managed to get in three

<sup>1</sup>The use of the word "few" perhaps should be justified. Figures supplied by HHFA indicate that there were 7,031 mortgages insured by FHA under sec. 608. Of these 7,031 mortgages, public allegations of substantial mortgaging out have been made in 219 cases, and of these details have been made available on only 29. In other words, unless additional cases are listed hereafter, and even assuming the charges against all 219 mortgagors can be substantiated, over 68/70 of all the mortgages insured by FHA under sec. 608, apparently did not involve substantial mortgaging out.

short sessions before July 4, at which agreement was reached in respect to title I as follows:

1. The Senate provision retaining the present \$2,500 loan limit was accepted.
2. The House proposal for 20 percent coinsurance was reduced to 10 percent.
3. The Senate provision limiting title I loan activity to supervised lenders and other lenders specifically approved by the Commissioner was accepted.
4. The Senate provision restricting loans to those resulting in substantial improvement to the basic livability or utility of the property was accepted.
5. The Senate provisions preventing multiple loans on the same property in excess of the maximum loan limit for loans on new houses within 6 months after completion were accepted.
6. The Senate proposal for completion certificates by borrowers and dealers was dropped.

The conference met again July 7, and agreed on maximum mortgage amounts for 1- to 4-family homes of 95 percent of the first \$9,000 and 75 percent of the excess. The conferees also agreed to retain the 20-year debenture maturity for 1- to 4-family houses. They further agreed on a \$100 million program of FHA insurance on farm homes on plots of 5 or more acres adjacent to public highways.

The conferees expect to continue their session uninterruptedly until the numerous differences in the House and Senate versions are resolved. Mid-July is probably the earliest date to expect a report, with the probability of a somewhat later date than that. Until the report is presented, it will not be possible fully to judge the extent to which failures to differentiate between the techniques of section 608 and 207, the effect to make FHA responsible for builders' performance, and other title I restrictions devised before the allegations about FHA operations can be coolly evaluated, will reduce FHA's effectiveness as an instrumentality of the private home mortgage market.

Sincerely yours,

SAMUEL E. NEEL, *General Counsel*.

Mr. NEEL. Now, the letter to which you referred—just a minute Mr. Simon. Let me answer the question.

The letter to which you have just referred is a request of the Commissioner of the Federal Housing Administration for information.

That letter did not come from this committee, nor was it a request of this committee. As a matter of fact, according to my understanding, there is serious doubt as to whether the FHA Commissioner ever requested an opinion from his own legal staff as to whether he had the legal right to ask for this information.

As a matter of fact, Mr. Chairman, yesterday in a conversation that I had with Mr. Meistrell, I asked him whether anybody—

The CHAIRMAN. Mr. Neel, in all fairness, if you wanted to be cooperative, why didn't you give FHA the information that they wanted?

Mr. NEEL. I think anybody is under—

The CHAIRMAN. Even if they have no authority, when we are trying to get the facts on all these alleged irregularities I would like to make a part of the record the text of the FHA questionnaire which was sent out.

Mr. NEEL. I have it here, if you have not already made it a part of the record.

The CHAIRMAN. We are going to make it a part of the record.

Without objection, it will be made a part of the record.

(The questionnaire referred to follows:)

FEDERAL HOUSING ADMINISTRATION,  
Washington 25, D. C., June 17, 1954.

To: All mortgagors under section 608 of title VI of the National Housing Act.  
Subject: Cost information and other data.

GENTLEMEN: To facilitate the investigation of the FHA recently undertaken by the Government, it has been determined necessary to obtain information concerning projects completed under section 608 of the National Housing Act.



21. If actual costs of projects are less than amount of mortgage indicate below what disposition was made of the difference.

- (a) Dividends ----- \$-----
- (b) Redemption of stock-----
- (c) Loans to stockholders-----
- (d) Loans to others (specify)-----
- 
- 
- (e) Paid to contractor(s) in excess of contractor's actual costs where identity of interest exists-----
- (f) Paid to seller of land in excess of his actual cost where identity of interest exists-----
- (g) Other disposition (specify)-----
- 
- 

PART II

Part II-A is to be filled out only in those cases where the land was purchased from someone having an identity of interest with the mortgagor. Part II-B is to be filled out only in those cases where the construction was performed by the mortgagor or by others having an identity of interest with the mortgagor. (For the purpose of this questionnaire "identity of interest" is construed to mean any financial or other relationship between the mortgagor or any of its officers, directors, or stockholders with the general contractor, subcontractors, materials suppliers, or the grantor (seller) of the project land to the mortgagor).

List by name each general contractor, subcontractor, materials supplier or others with whom there was an identity of interest.

-----

-----

-----

**A. Land data**

- 1. Date of sale to mortgagor -----
- 2. Date of purchase by individual or corporation having identity of interest with mortgagor -----
- 3. Cost of land to individual or corporation having identity of interest with mortgagor \$-----

**B. Actual construction cost**

The actual cost incurred in the completion of construction exclusive of off-site utilities and streets and all kickbacks, rebate and trade discounts received in connection with the construction of the project is itemized below.

**1. Subcontractors (include contractor's fees)**

| Name                              | Type of work | Amount  |
|-----------------------------------|--------------|---------|
| -----                             | -----        | \$----- |
| -----                             | -----        | -----   |
| -----                             | -----        | -----   |
| -----                             | -----        | -----   |
| -----                             | -----        | -----   |
| Miscellaneous-----                | -----        | -----   |
| -----                             | -----        | -----   |
| Total amount of subcontracts----- |              | -----   |

(NOTE.—Subcontracts of less than \$1,000 each may be included as a lump sum under miscellaneous.)

2. Materials (not included in subcontracts)

| <i>Purchased from</i>             | <i>Amount</i> |
|-----------------------------------|---------------|
| -----                             | \$-----       |
| -----                             | -----         |
| -----                             | -----         |
| -----                             | -----         |
| -----                             | -----         |
| -----                             | -----         |
| -----                             | -----         |
| -----                             | -----         |
| -----                             | -----         |
| Miscellaneous-----                | -----         |
| Total cost of materials used----- | -----         |

(NOTE.—Total purchases of materials amounting to less than \$1,000 from a dealer may be included as a lump sum under miscellaneous.)

NOTE.—If additional space is required, append rider with appropriate references thereto, and initial rider.

3. Labor (not included in subcontracts)

| <i>Type</i>              | <i>Amount</i> |
|--------------------------|---------------|
| Carpenters-----          | \$-----       |
| Masons-----              | -----         |
| Plumbers-----            | -----         |
| Electricians-----        | -----         |
| Common-----              | -----         |
| Superintendents-----     | -----         |
| Watchmen-----            | -----         |
| Other (itemize)-----     | -----         |
| -----                    | -----         |
| -----                    | -----         |
| -----                    | -----         |
| -----                    | -----         |
| Miscellaneous-----       | -----         |
| Total cost of labor----- | -----         |

(NOTE.—Cost of labor other than as classified above amounting to less than \$1,000 for a particular class may be included as a lump sum under miscellaneous.)

4. Job overhead

| <i>Item</i>  | <i>Amount</i> |
|--|---------------|
| Insurance during construction not included under part I----- | \$-----       |
| Light and power-----   | -----         |
| Telephone and telegraph-----                                 | -----         |
| Water-----   | -----         |
| Other (itemize)-----   | -----         |
| -----  | -----         |
| Miscellaneous-----   | -----         |
| Total for job overhead-----                                  | -----         |

(NOTE.—Job overhead for items other than as listed above amounting to less than \$1,000 per item may be enumerated and included as a lump sum under miscellaneous.)

5. General contractor

Where identity of interest was with one or more subcontractors or materials suppliers and there was no identity of interest with the general contractor, state amount paid to general contractor (not included in other items in pt. II-B).

## 6. Total construction cost

Amount----- \$-----  
 Total items 1 through 5, pt. II-B-----

Mortgagor-----  
 By-----  
 Title-----

[Corporate seal]

Attest:

-----  
 Secretary

State of----- } ss.  
 County of----- }

-----, being first duly sworn, says that he is the  
 ----- of -----, a corporation created and exist-  
 ing under the laws of the State of -----; that he is authorized to and  
 does make this affidavit for and on behalf of said corporation; and that the  
 information given in answer to the foregoing questionnaire is true and correct  
 to the best of his knowledge and belief.

Subscribed and sworn to before me this ---- day of -----, 1954.

-----  
 Notary Public.

Mr. NEEL. When a client asks an attorney whether he should fill out under oath, a questionnaire such as this one, relating to information, or to occurrences which took place years ago, I think the lawyer for that client is under an obligation to advise him of all the possible dangers that might occur and that is what I did.

The CHAIRMAN. Mr. Neel, we are not questioning you as a lawyer. Frankly, our criticism is directed at the association and not at you personally. You are acting in the capacity of a lawyer for the association.

Mr. NEEL. That is why I suggested to Mr. Simon, when he called me-----

The CHAIRMAN. We have you here as a witness, today, because you did as attorney for the association, at their request, give them an opinion and wrote the letter.

I assume you did it at their request. Is that right?

Mr. NEEL. Yes, indeed.

That is why I suggested to Mr. Simon day before yesterday when he telephoned me that if he wished to get an official expression of opinion from an officer of this association as to the association's opinion of the committee's conduct, that you ask me to bring before you one of the officers of the association, but he indicated he did not wish to do that.

Mr. SIMON. Mr. Neel, granted that you and every other lawyer is entitled to his opinion on the authority of the Commissioner to ask for this, who directed that your opinion of Mason's want of authority, be circulated to all the members of the Mortgage Bankers Association?

Mr. NEEL. Nobody directed it, Mr. Simon.

Mr. SIMON. Did you send that out on your own?

Mr. NEEL. Yes, indeed. Under my employment as counsel for MBA, I have a responsibility to give to the membership any information which in my opinion they ought to have called to their attention.

Mr. SIMON. You said a moment ago when a client asks a lawyer for an opinion he is bound to give his honest opinion.

Mr. NEEL. That is correct.

Mr. SIMON. To which I would be the first to subscribe.

Mr. NEEL. That is correct.

Mr. SIMON. But what you are saying here is that they hadn't asked for your opinion, but you thought they ought to have it.

Mr. NEEL. No, indeed. You will see the letter itself states a member of the association asked for my opinion, and I am employed by the association and not by an individual member.

Mr. SIMON. But you determined, at any rate, to send it on to all the other members?

Mr. NEEL. Yes, indeed.

The CHAIRMAN. We understand that you have been acting in the capacity of a lawyer for the Mortgage Bankers Association. You have been representing them, and in doing what you did, here, you did it because you thought it was in their best interests?

Mr. NEEL. Yes; I did, sir.

The CHAIRMAN. Now my question is this: Do you feel we must have added legislation in order to get the information that Mr. Mason asks for in that questionnaire?

Mr. NEEL. In my opinion you should have additional legislation, Mr. Chairman.

The CHAIRMAN. Thank you very much for your testimony. We appreciate it.

The CHAIRMAN. Our next witness will be Mr. Hughes of the National Association of Home Builders.

Mr. Hughes—

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

### TESTIMONY OF R. G. HUGHES, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. HUGHES. I do.

The CHAIRMAN. You are the president of the National Association of Home Builders?

Mr. HUGHES. Yes, sir.

Mr. SIMON. Would you give your name and address to the reporter, Mr. Hughes.

Mr. HUGHES. My name is R. G. Hughes. I live in Tampa, Tex.

Mr. SIMON. You are the president of the National Association of Home Builders?

Mr. HUGHES. That is correct.

Mr. SIMON. I hold in my hand a booklet some 8 or 10 pages long entitled, "Were the Windfalls Wicked?" reprinted from the Washington Post of August 16 through August 20, 1954. On the inside cover it says:

You will be interested to know that the National Association of Home Builders sent reprints of this Washington Post and Times-Herald series to the building-trade associations and real-estate editors and writers throughout the country.

Are you familiar with that book?

Mr. HUGHES. I have seen that booklet.

Mr. SIMON. Was it sent to the building-trade associations, real-estate editors and writers throughout the country at your direction?

Mr. HUGHES. I did not send and neither did the National Association of Home Builders send that book to anybody.

Mr. SIMON. Is this a false statement, then?

The CHAIRMAN. Show him the statement.

Will someone hand him that statement.

Mr. SIMON. The inside cover. Will you read it again?

Mr. HUGHES. It says:

Additional copies are available—

You will be interested to know that the national association sent reprints of this Washington Post and Times Herald series to building-trade associations and real-estate editors and writers throughout the country.

We did not send this booklet. We did send reprints of the—

Mr. SIMON. You didn't send that piece of paper but other pieces of paper with the same words on it?

Mr. HUGHES. Reprints. Five articles, yes, were sent out to certain people. I don't know whom.

Mr. SIMON. By your association?

Mr. HUGHES. Yes.

Mr. SIMON. May I have that back, please?

Approximately how many copies did you send out?

Mr. HUGHES. I have no way of knowing.

Mr. SIMON. Was it a matter of 100, or 5,000?

Mr. HUGHES. It would be more than a hundred but less than 5,000, I would think.

Mr. SIMON. A thousand, maybe?

Mr. HUGHES. Approximately.

Mr. SIMON. Is it a fair inference to make to say that since you sent them out in that quantity that your association subscribes to the views expressed in those articles?

Mr. HUGHES. We felt that the article gave a broad view of the sort of windfalls.

Mr. SIMON. There are just two things in the article that I would like to pick out as examples without taking the time to go into the whole article but the caption on the second of the series is "FHA Reforms Seen Killing Rental Units."

Is it the position of your association that to eliminate corruption and bribery in FHA, and to deny people mortgages of 125 to 130 per cent of the cost, will kill rental units?

Mr. HUGHES. That is not our position.

Mr. SIMON. Well, why would you support the view that "FHA reforms are seen killing rental units."

Mr. HUGHES. I didn't say that we supported these forms. There are some statements in that that we don't think are good for builders. But it is a two-sided picture of the story, we thought, and it is a different kind of a story than some of the stories that have been coming out in the newspapers.

Mr. SIMON. Well, the article following the caption I have just read is to the effect that unless builders can make a profit out of the mortgage proceeds there won't be any rental housing.

Is that the position of your association?

Mr. HUGHES. No, sir.

Mr. SIMON. It is not? It is not the position of your association?

Mr. HUGHES. No, sir.

Mr. SIMON. I am glad to hear that.

Now, the last of the articles has a caption "Feelings of Cafritz Ruffled by Ingrates." And the tenor of the article is that the chairman of this committee was an ingrate because he was invited to a social function at the Cafritz home for the daughter of the Premier of Spain and in spite of having that invitation extended to him, he still subpoenaed Mr. Cafritz to come before this committee and that made him an ingrate.

Does your association subscribe to that view?

Mr. HUGHES. No.

Mr. SIMON. I cannot help but comment that the last two paragraphs of the article are as follows:

To get around that, Cafritz thinks the FHA should insert a clause in its contracts requiring money left over in the pot to be applied toward paying off the mortgage.

Do you agree to that?

Mr. HUGHES. I didn't get the question.

The CHAIRMAN. Read it again, please.

Mr. SIMON (reading):

To get around that, Cafritz thinks the FHA should insert a clause in its contracts requiring money left over in the pot to be applied toward paying off the mortgage.

Do you agree to that?

Mr. HUGHES. Well, that is one—I couldn't say whether or not I do agree with you.

Mr. SIMON. Have you read these articles before?

Mr. HUGHES. I have read them hurriedly.

Mr. SIMON. Are you in a position to say whether you individually or your association agrees with that suggestion?

Mr. HUGHES. No, sir.

Mr. SIMON. You are not?

Mr. HUGHES. I think if you will look at the testimony that I gave here on April 21, that I made a recommendation of something similar to that.

Mr. SIMON. In your April testimony you disagreed with that?

Mr. HUGHES. I don't believe I did. I think I recommended the same thing. Something similar to it.

Mr. SIMON. That the excess mortgage proceeds should be applied to reduction of the mortgage.

Mr. HUGHES. I am not sure, but I believe that we did.

The CHAIRMAN. The present law requires that, so it doesn't make any difference.

Mr. HUGHES. We recommend it, I think, too.

Mr. SIMON. The last of this article says:

As for himself and Parklands Manor, Morris Cafritz declares: "There was no windfall. No money was paid out. They should be tickled pink. Instead they cry, 'Very unfair. Very unfair'."

And as for Cafritz' wife Gwen, famed for her Foxhall Road NW. lawn levees, the hostess' recent gala for the daughter and son-in-law of Generalissimo Francisco Franco was embellished with a huge vase containing 2 dozen large yellow roses.

The card was signed by Senator Homer S. Capehart, Republican, of Indiana, chairman of the Banking and Currency Committee. He and Mrs. Capehart were sorry they couldn't make it.

I don't know whether your group knew this when they sent reprints out around the country but the fact is that this big party for the daughter and son-in-law of Generalissimo Francisco Franco was on a Saturday night, Saturday, July 17, and there are two reasons why the guests at the party couldn't have seen a large vase embellished—a huge vase embellished with 2 dozen large yellow roses. One was that there was only 1 dozen, not 2, and the second was that they were not delivered until the next morning.

I have here a letter from the florist which I would like to include in the record, dated October 4, 1954. It is from Grandville Gude, president of Gude's, Inc., Florists.

On July 14, your secretary, Miss Miller, phoned us for an order of 1 dozen yellow roses, \$7.50, to be delivered to Mr. and Mrs. Morris Cafritz, 2301 Foxhall Road NW., on July 18. According to our records, this order was booked on ticket No. 5337-25 and delivered on July 18, between 9:20 and 12:45 p. m., by driver Ardis Hopkins, and signed for by John Slatzo, according to our delivery sheet No. 17230.

We remain,

(G U D E B R O S .

Do you have any idea how the guests on Saturday night could have seen some roses that didn't get there until Sunday?

Mr. HUGHES. We didn't write the articles and we didn't censor them, either.

Mr. SIMON. I take it you are now saying you don't particularly agree with all of it, is that it?

Mr. HUGHES. I didn't say we particularly agreed with it. I don't see that there is anything particularly wrong with sending newspapers and opinions of writers out to people.

Mr. SIMON. Had you ever sent any opinions on the other side out?

The CHAIRMAN. Have you issued one single release, yet, or made one single statement in which you have said that many, many of the things that this committee have uncovered have been wrong?

Mr. HUGHES. Senator—

The CHAIRMAN. Or haven't you failed to do it?

Mr. HUGHES. Senator, on May 4, I wrote a letter to the members of the National Association of Home Builders—some 30,000 members—in which I think I very clearly outlined the position that we had taken at that time, and what we have done since that time. It says:

We cannot condone any illegal action on the part of anyone whether inside or outside of Government or amongst the membership of our association. We will cooperate with Government in finding any illegal activity that may exist. I have urged that illegal actions and discrepancies if such exist should be cleaned up whether they be amongst FHA employees or amongst home builders. But the entire FHA and the entire home-building business should not be discredited since the alleged difficulties admittedly involve but a small fraction of FHA's overall program.

It goes on to say:

Any illegal action which may be shown to exist in FHA must be cleaned up and the confidence of the people restored in the integrity of that agency.

And I ended by saying:

Please help us to do this job.

It went to all of our members.

Mr. SIMON. Do you want to make that article part of the record?

Mr. HUGHES. Yes, sir.

The CHAIRMAN. Without objection, it will be made a part of the record.

DEAR MEMBERS: The temporary investigation hearings on FHA in the Senate have been concluded. Senator Capehart has announced that he will start writing up the housing bill on May 18. I am very positive in my convictions about the FHA. I have fought for the FHA on many occasions because I feel that it is the backbone of our business. And the Nation's home-building business will ebb and flow in direct proportion to the rise or fall of the fortunes of the FHA.

My stand as president of NAHB from the very beginning has been as follows:

We cannot condone illegal actions on the part of anyone—whether inside or outside of Government or amongst the membership of our association. We will cooperate with Government to end any illegal activities which may exist. I have urged that illegal actions and discrepancies—if such exist—should be cleaned up, whether they be among FHA employees or among home builders. But the entire FHA and the entire home-building business should not be discredited, since the alleged abuses admittedly involve only a small fraction of FHA's overall program.

Since the original allegations were made, the investigations have brought forth no new charges of discrepancies. The alleged abuses are still estimated at less than one-tenth of 1 percent of the FHA's entire insurance program.

Administrator Cole has asked me to appoint a committee to advise with him concerning new housing problems which arise from day to day. That committee has been appointed.

Norman Mason, new FHA Commissioner, has asked for a representative of the home-building industry to serve on a committee to discuss the new FHA rules, regulations, and procedures which he will present to the field in a very few days.

We have been working night and day trying to find proper answers to the legislative crisis which faces us here in Washington. Any illegal actions which may be shown to exist in FHA must be cleaned up and the confidence of the people restored in the integrity of that agency. Please help us do this job.

(The document referred to follows:)

[Washington Letter, National Association of Home Builders of the United States, Washington, D. C., May 4, 1954, No. 486].

DEAR MEMBER: The temporary investigation hearings on FHA in the Senate have been concluded. Senator Capehart has announced that he will start writing up the housing bill on May 18. I am very positive in my convictions about the FHA. I have fought for the FHA on many occasions because I feel that it is the backbone of our business. And the Nation's home-building business will ebb and flow in direct proportion to the rise or fall of the fortunes of the FHA.

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Since the original allegations were made, the investigations have brought forth no new charges of discrepancies. The alleged abuses are still estimated at less than one-tenth of 1 percent of the FHA's entire insurance program.

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We have been working night and day trying to find proper answers to the legislative crisis which faces us here in Washington. Any illegal actions which may be shown to exist in FHA must be cleaned up and the confidence of the people restored in the integrity of that agency. Please help us do this job.

#### LET'S GET ON WITH THE JOB

We must pass a good housing bill. You must also help us do that job. But our main job and the real purpose of our existence is to build the houses that the American people need. People expect us to provide the proper number of houses and the proper kind of houses that they want, at prices which they can afford to pay. If we fail to provide the houses that the people need and want, then criticism of our industry will be justified. Therefore, in my opinion, the time has come for us to get on with the job.

You will find in this letter an outline of the program on which we are working. It is simple in principle. I want to help you in every way that I can to find better, more efficient, and easier ways of providing more good homes for more Americans. The passage of the housing bill now pending before the Congress—with certain revisions and amendments—should be of great help to you. It is one of the most important legislative measures that the Congress has ever considered. It is important to the people of America because it will eliminate discriminations which have existed in the past against certain classes of people. It will give every American the opportunity to live in a good house. Therefore, we must have the financing tools provided in the bill if we expect to do our job as it should be done.

#### EXPANSION OF NAHB SERVICE AND FUNCTIONS

In order to be of further help to you in providing the houses that the people need and want at the prices that they can afford to pay, I have proposed that the services of NAHB be streamlined and expanded. The local association and individual members should have the opportunity to take fuller and more complete advantage of the materials and information which the national office provides.

I hope to expand the services of the various existing departments and to set up new departments that are needed to render even better and more complete service to local associations and to individual members. Time and space will not permit full details concerning proposed improvements and expansion of our existing programs. I should mention that we are setting up a new sales and merchandising committee under the chairmanship of W. Hamilton Crawford—one of the best merchandisers of housing in the Nation.

We propose a new concept in our mortgage finance department. We have set up a new division designed (a) to show builders how they can take full and complete advantage of all available mortgage financing tools, and (b) to start a campaign to channel additional money into mortgage loans. It is my opinion that additional funds will be needed to carry out the objectives outlined in President Eisenhower's housing program.

We have also employed a housing economist to gather vital housing facts and data.

#### COMMITTEE STRUCTURE AUGMENTED

NAHB is now an organization of more than 29,000 members. According to Frank Burns, chairman of the regional vice presidents council, our membership should increase to at least 33,000 by the end of this year. Since our organization has grown and is continuing to grow so rapidly, I feel it is necessary to revise our committee structure in order to (1) assign specific duties to hundreds of regional and local homebuilders who have proven their sincerity and capabilities and to give them the opportunity of leadership; and (2) to give local associations the opportunity to get good, well-prepared programs for their meetings.

Therefore, I have set up 12 major committees which will have representation at the local level through a committee chairman who will be a member of the overall NAHB committee and through a regional chairman, appointed by me upon the recommendation of the regional vice president and the concurrence of the general committee chairman of that particular activity.

Following is the list of these 12 major committees with their chairmen and their objectives:

Legislative, Nathan Manilow, chairman  
Mortgage finance, V. O. "Bud" Stringfellow, chairman

Housing rehabilitation, Alan Brockbank, chairman  
 Public relations, Paul Burkhard, chairman  
 Sales and merchandising, W. Hamilton Crawford, chairman  
 Housing for minorities, Wallace Johnson, chairman  
 Labor, August Rahlves, chairman  
 Membership, Mark Thoreson and John Goodwin, cochairmen  
 Business management, Frank Collins, chairman  
 Construction techniques, Martin L. Bartling, chairman  
 FHA-VA construction requirements, George Goodyear, chairman  
 Educational (including the subject of community facilities), Leonard Frank, chairman

*Legislative committee objectives.*—(1) To obtain the most favorable consideration of legislative proposals in Congress benefiting home buyers, tenants, and home builders. (2) To provide a broad understanding on the part of Members of Congress of the problems and the achievements of the home-building industry. (3) To aid local associations and communities with housing problems which may be solved by congressional action. (4) To inform fully, accurately, and promptly all members and affiliated local associations on national legislation and its effect upon the home-building industry. (5) To maintain continual liaison with the various housing agencies of the Federal Government to the end that effective regulations may be promulgated.

*Mortgage finance committee objectives.*—(1) At least one mortgage finance clinic to be organized and conducted in each region under the supervision of the regional vice president and regional chairman. (2) Regional chairman to prepare a program on mortgage finance from material to be supplied by national and present at least one program at a meeting of each of the local associations in his region. (3) Assist FHA in the conduct of industry meetings throughout the Nation shortly after the enactment of the 1954 housing bill. (4) Explore ways and means of improving the secondary mortgage market. (5) Seek out and study all possible sources of mortgage credit in an effort to develop outlets for expanded volume.

*Housing rehabilitation committee objectives.*—To stimulate citizens' interest across the country in slum rehabilitation. This will be done through the pattern of slum-rehabilitation schools developed in New Orleans and recently applied in Trenton, N. J., where 163 citizens and city officials from 18 States, 73 cities attended such a course. NAHB's department of housing rehabilitation is now developing "how to do it" materials with visual aids and program guides that will be distributed on a regional basis for use in home-builders' meetings held this year throughout the country. The application of home builder know-how and how the home builder fits into the rehabilitation program will be emphasized.

*Public relations committee objectives.*—An aggressive program, at local and national levels, helps sell homes, puts across ideas, helps create a legislative and economic climate conducive to expanded home production. Public Relations Committee Chairman Paul L. Burkhard feels there is more need this year than ever before for strong national home week and parade of homes programs, to put the home back into local home shows, promote use of the code of ethics, service policy, speakers' bureaus, best citizen awards.

*Educational committee objectives.*—(1) To carry on a long-range school educational program designed to encourage future homeownership and to implant the private enterprise system of home building firmly in the minds of children and teachers. (2) To encourage homeownership and better community living. (3) To establish a climate favorable to private enterprise housing in the minds of the public and Government officials.

*Sales and merchandising committee objectives.*—Creation of a new sales and merchandising committee spotlights the increased importance of this subject. W. Hamilton Crawford, chairman, and his committee will endeavor to place full information on basic selling techniques before local associations and individual builders through the medium of sales clinics, films, brochures, convention panels, and demonstrations, merchandising stories in Correlator, etc.

*Housing for minorities committee objectives.*—(1) Study ways and means of encouraging the production of minority housing. (2) Consult with racial relations officials of HHFA and FHA in connection with the financing of housing for minorities. (3) Hold conferences with representatives of insurance companies, savings banks, and other investors in an effort to improve the flow of mortgage money into the secondary market for minorities. (4) Suggest activities of local committees relative to the promotion and development of the minority housing

program. (5) Check with FHA relative to 1954 goals which have been established for each insuring office for the production of minority housing and advise local associations accordingly. (6) Make a special effort to interest Negro life-insurance companies, banks, and savings and loan associations in the financing of Negro housing.

*Labor committee objectives.*—(1) Advise with the legislative committee on labor legislation. (2) When requested by local associations, assist in settlement of jurisdictional labor disputes. (3) Advise local associations on labor problems in open-shop areas on request. (4) Accumulate complete data on labor agreements and related labor information. (5) Provide small associations with standard forms of union contracts upon request. (6) Exchange information with other employer groups. (7) Advise with local associations on apprenticeship programs.

*Membership committee objectives.*—The regional vice presidents council has established a double-barreled goal for the national membership committee. Each regional vice president has pledged his region to a 50-percent cut in the dropouts registered in 1953 plus a 15-percent minimum increase over the January 1, 1954, regional membership figures. If the 15-percent increase is reached, this alone would bring the total NAHB membership to 33,172 or a net gain of 4,314. The membership and field service department is now in the process of developing additional membership aids which are being distributed to all local associations. Sustained emphasis will be placed on both the decrease in cancellations and in the 15-percent increase throughout the year.

*Business management committee objectives.*—(1) To study the business management problems of the home-building industry. (2) To develop an analysis of uniform business problems to serve as a checklist for individual builders in assessing their own management efficiency. (3) To present in some detail how these problems might be solved, based on successful experience in the trade and generally accepted principles of business management. (4) To lend the committee's aid to specified problems that might be referred to the committee for its consideration and recommendation.

*Construction techniques committee objectives.*—(1) To analyze and review new and advanced construction techniques, methods, and materials. (2) To make these techniques available to all builders in practical form through all possible media. (3) To carry forward the existing programs in the field of house design, land planning, building codes, interior electric wiring and air-conditioning. (4) To provide industry review on proposed revisions to the FHA and VA technical requirement. (5) To provide a working pool of technically minded home builders available to carry out the research projects of the NAHB Research Institute. (6) To lend the committee's knowledge and assistance to specific construction problems referred to it for review and recommendation.

*FHA-VA construction requirements committee objectives.*—(1) To analyze the problems of the home builder with FHA, VA, and other regulatory agencies. (2) To arrive at equitable solutions to these problems in cooperation with such agencies. (3) To eliminate duplicative and conflicting requirements and practices to the end of improved industry efficiency and cost saving.

#### COMMITTEE ORGANIZATION COMPETED

Our plan of organization divides the committee functions into three parts, the local, the regional, and the national. The national chairman has under his supervision and direction 20 regional chairmen who serve as a steering committee. The chairman of the local committee is automatically a member of the national committee. The duty of the national chairman is to provide the regional chairmen with materials, data, and information which they can put into program form to be used at the request of any local association. It is the duty of regional chairmen to present good, well-prepared programs to locals in their regions upon request. Thus, such a plan should create a very close and direct liaison between the local and the national through the regional chairmen.

The May meeting of the board of directors will be the real organizational meeting of our committee setup. Therefore, I sincerely hope that each one of you who has been named by your local association president or by your regional vice president as a member of one of NAHB's 12 major committees will find it possible to be in attendance at our meeting of standing committees at the Mayflower Hotel, Washington, D. C., on May 15. (All committee members will convene for a briefing session at 9:30 a. m. in the Williamsburg room.)

In addition to the 12 committees listed above—and of course, the executive committee—there are some 13 special committees established to care for NAHB's internal affairs and for specialized purposes. Some idea of the scope and diversity of the association's activities may be gathered from reading the list below. Each of these committees and their capable chairmen are working diligently in your interest. Those of you who attend our board meetings and the Chicago convention each January have an opportunity to observe many of the results accomplished by these hardworking committees.

Past presidents council, E. M. Spiegel, chairman  
 Budget committee, V. O. "Bud" Stringfellow, chairman  
 NAHB Housing Center, Inc. (building committee), Nathan Manilow, chairman  
 Convention committee, Henry Fett, chairman.  
 Tax committee, Franklin Burns, Joseph Meyerhoff, cochairmen  
 Regional vice presidents council, Franklin Burns, chairman  
 Young builders committee, Bruce Blietz, chairman  
 Correlator committee, H. Leslie Hall, chairman  
 Rental housing committee, M. M. Robinson, chairman  
 Veterans' housing committee, Dale Bellamah, chairman  
 Research institute board of trustees, Earl Smith, chairman  
 Joint NAHB-Producers Council committee, Joseph Merrion, chairman  
 Housing for aging and for paraplegics, Frank Robertson, chairman

While I may seem to have dwelt at length on our committee functioning, I deemed it important that our 29,000 members know of the vast and varied activities of this organization which exists for the sole purpose of serving you and the home-buying public. I hope that each of you will find in these activities assistance in your practical, everyday problems of building better homes for our American citizens.

Sincerely yours,

R. G. "DICK" HUGHES, *President.*

**The CHAIRMAN.** Also, I would like to make a part of the record an editorial occurring in this morning's edition of the Washington Post, Web of Scandal.

I will ask counsel to read it. I think it sums up the situation pretty well.

**Mr. SIMON.** This is in this morning's Washington Post and Times Herald:

The ugly picture of scandal in the FHA has been worsened with the testimony of this week. At last the Capehart committee has spread on the record direct testimony in which Clyde L. Powell, former Assistant Commissioner of the FHA, is accused of demanding and receiving \$10,000 for his "services" in getting an FHA mortgage increased, and that testimony is associated with numerous other tales of payments for political influence.

The hearings appear to be winding Mr. Powell ever tighter into a tangle of venality, gambling, and financial troubles. Among the mysteries that remain to be cleared up is an excess of some \$143,000 deposited in his bank account over and above the total salary paid to him between 1945 and last April. Yet Mr. Powell prefers to keep silent about these matters and their implications, claiming his privilege of refusing to give testimony that might tend to incriminate him. One of the absurdities of Tuesday's session was the frequent demands of Mr. Powell's attorney, Daniel B. Maher, that he be permitted to cross-examine the witnesses who were making charges against Mr. Powell, while Mr. Powell himself continued to hide behind the fifth amendment.

Do you think, Mr. Hughes, in the additional copies of those four Post articles you sent out that you might add this fifth Post article?

**Mr. HUGHES.** I certainly wouldn't object. We have never argued against cleaning up abuses.

**Mr. SIMON.** Thank you, sir.

**The CHAIRMAN.** Without objection, let's make a part of the record the four articles.

(The articles referred to follow:)

[Reprinted from the Washington Post and Times Herald, August 16-20, 1954]

### WERE THE WINDFALLS WICKED?

(A series of five articles by staff reporter Warren Unna)

You will be interested to know that the National Association of Home Builders sent reprints of this Washington Post and Times Herald series to building trade associations and real estate editors and writers throughout the country. Additional copies are available by writing the promotion department of the Washington Post and Times Herald.

#### FHA LOOPHOLES SOWN KNOWINGLY ON HILL

(First of a series)

(By Warren Unna, staff reporter)

The lush tales of financial windfalls in postwar rental housing which the Senate Banking and Currency Committee has been enumerating since April should come as no surprise to the Congress.

Both sides of the political aisle deliberately voted for the provisions which made these windfalls possible. They realized there was a critical housing shortage. They also had plenty of advance warning that their bill was too loosely worded.

But Congress, as one former housing official put it, "went ahead anyway and sewed the loopholes into the law." And, as reprehensible as the windfalls are, there are many housing authorities today who think Congress could not have done otherwise.

Senator John J. Sparkman (Democrat of Alabama), a member of the Banking and Currency Committee and one of Congress' most knowledgeable housing men, declared on the Senate floor July 28, "It is easy for us to stand here and condemn \* \* \*

"[But it was] a program designed to aid the veteran to get rental housing, which did that very thing more successfully than we had ever hoped, which broke the back of the most severe housing shortage in our history, which provided adequate housing at reasonable rates \* \* \*."

The committee's chairman, Senator Homer E. Capehart (Republican of Indiana), has charged some 219 corporations throughout the Nation with raking in half a billion dollars or more in windfalls from the construction of 608's—multi-family apartments built to rent.

Yet the committee on April 22 and 23, 1942, heard Harry C. Bates, chairman of the AFL housing committee, testify: "The procedure outlined in this new (608) section will enable a speculator to undertake a large-scale project without investing any capital of his own, borrow out some profit in advance, milk out further profit by collecting rents for the initial period when no repairs are necessary and the upkeep is low \* \* \*."

The committee heard Richard Deverall, CIO housing subcommittee chairman, declare the proposed legislation "\* \* \* abandons the restrictions previously enacted by Congress to prevent overvaluation and default on the projects \* \* \*."

But the committee also heard Rufus S. Lusk, representing the National Home Builders' Association, and J. M. Mowbray, of the National Association of Real Estate Boards and its affiliated Home Builders' Institute of America.

Lusk said the 608 program might not be economically sound, but neither were loans to tank factories when you had an emergency to meet. Mowbray warned if the proper incentives were not made, private building would "largely disappear," leaving the job of construction to Government appropriations.

The bill was not only passed, Congress twice extended it. The 608 section survived several amendments to the National Housing Act and was prolonged until March 1, 1950, 6 months after Housing and Home Finance Agency Administrator Raymond M. Foley had sought its end. Among the leading sponsors in 1946 and 1948 was the late Senator Robert A. Taft, Republican, of Ohio. Taft said he didn't particularly like the law but rental housing was still needed, the measure was getting results, and so he was for it.

Section 608's main loophole was in allowing a Federal Housing Administration-guaranteed loan on 90 percent of estimated "necessary current cost" instead of the traditional, and more realistic, 80 percent of "estimated value."

Why did Congress, never known for being overlavish, bull ahead with this rental-housing program despite warnings for caution?

Senator Capehart last month accused the building industry of having the "wool pulled over our eyes." But there were some real reasons for the loophole legislation.

Congress had to consider the peculiarities of the housing industry. Builders traditionally work on a shoestring, building on borrowed capital. They habitually shied away from rental housing and preferred the more profitable "sale" houses. They didn't like the idea of FHA-fixed rents. They foresaw operational headaches if the units didn't fill up. Since its origins in 1935 as a New Deal pump-priming scheme, FHA had attained respectability in encouraging mortgage capital for sale houses. But rental units had always been regarded as stepchildren.

Census Bureau figures show that 2.2 million of the veterans discharged in early 1946 wanted to change their prewar mode of housing immediately and another 4 million intended to do so within a year. Half of this combined group wanted to rent rather than buy.

Yet the rental housing just wasn't available. As late as April 1947 there were only 166,000 rental units to be had throughout the country. In even shorter supply were houses for sale, a mere 94,000.

Not only was housing short, building material firms were far behind in meeting orders. These firms were peacetime luxuries, wartime casualties; they had to reassemble manpower and supplies and gear up all over again.

The housing need was critical, building supplies were short, and rental units, particularly, were way below the demand. That is why Congress sewed the loopholes into the law.

But because of these loopholes in the forties, Congress inevitably had to hold windfall hearings in the fifties. It was also inevitable that these hearings would be stormy.

(Tuesday: Living with mother-in-law.)

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#### FHA REFORMS SEEN KILLING RENTAL UNITS

(Second of a series)

(By Warren Unna, staff reporter)

The Senate Banking and Currency Committee has been talking of wicked windfalls in postwar rental housing and leaving the impression the whole program was pretty well tainted.

But Miles L. Colean, leading Washington private consultant to the housing industry, declares: "They got the job done and most of it was pretty good and at market rents."

The Nation's gigantic postwar housing activity wasn't just the result of a smooth-talking real-estate salesman. The country was bursting out through the walls and something had to be done—fast.

Something was done fast: A law with enough loopholes to make the windfalls possible. But the law also provided the necessary incentive to private industry to get housing built, particularly in the badly needed rental field.

The last United States housing boom saw its peak in 1925 when 937,000 units went up under private financing. Came 1933, and the depression, with its lack of money for downpayments and interest, and only 93,000 housing starts were made.

The housing industry started recovering in the late thirties but jammed fast with the war when manpower, materials, money, and energy all went into defense industry.

The 4 years of war may have produced little new housing but they did bring about a sociological phenomenon. Instead of so many couples getting married and settling down, they either hastily married and were quickly separated because of military duty, or simply became engaged—until Demobilization Day plus one.

In the meantime, the bride or fiance often moved it with her new folks. When the war ended, the GI joined her.

The doubling-up-with-mother-in-law situation affected 1.2 million families by V-J Day, according to the Bureau of the Census. By April 1947, the families involved had grown to 3,056,000—almost 7 percent of all households.

Another 500,000 families were living in trailers, rooming houses, and other makeshift quarters.

But the postwar calendar flicked over, the housing did go up, and individual American families were able to breathe easy in their own living rooms.

Not all of the accommodations were in single-family house sales, however. Half of the GI's discharged wanted homes to rent rather than buy so that they and their wives could be sure of their needs before taking advantage of the GI home loans.

The housing scandal hearings on Capitol Hill have so far had two phases: Accusations of mass bilking of homeowners through improperly supervised FHA-backed home-improvement loans; and, more recently, the charges of windfalls in multidwelling rental apartments put up under section 608, title VI of the National Housing Act.

The FHA approved some 7,069 "608" projects, encompassing 469,000 dwelling units, before the program expired in 1950. Internal Revenue Commissioner T. Coleman Andrews estimates builders raked in an extra \$65 million in "illegitimate" windfall profits on some 1,149 of these "608's." Andrews says 500 of the 1,149 have already distributed the money. He bases his accusations on submitted tax returns.

Senator Homer E. Capehart, Republican, Indiana, chairman of the Banking and Currency Committee, thinks his investigation will uncover a much larger windfall figure, more like \$500 million.

There have been further charges that tenants of these completed apartments are paying more rent than they should. The reasoning is that the 608's were financed at a larger sum than was needed to build them, the owners pocketed the difference, and the tenants were left to pay the interest on the unused money.

Rents for 608's around the Nation last year averaged \$87.95 monthly for a 4½-room apartment which included 2 bedrooms.

From 1945 through July 31 of this year, some 53,022 apartment units have been built in the metropolitan Washington area under FHA section 608 guaranteed loans.

One former HHFA official says local rents would be much higher than they now are had 50,000 or so families been left to bid against each other for space in a housing market devoid of these new apartments. Another said that was only part of the story: Tighter FHA control would have brought lower rent on the apartments that went up.

Now some housing experts have reservations on the future of rental housing construction because of what they consider an "unhappy coincidence" in timing: The recent windfall hearings were held on Capitol Hill just as the Housing Act of 1954 was making its way through Congress.

Senator Capehart predicts the new Housing Act will boost sales homebuilding 10 to 20 percent because of liberalized downpayments and a bigger leeway on the amount for which the Government will now guarantee a mortgage.

The new law, however, scales down the FHA guaranty of multirental mortgages from 90 to 80 percent. It stipulates that the project must be reappraised when completed and the allowable mortgage brought back into line should costs prove lower than anticipated.

Rental housing is still needed, particularly in skyward neighborhoods like those in New York where anything else than an apartment to rent becomes prohibitively expensive.

Prior to the 90 percent mortgage incentives, private builders were exceedingly skittish about rental housing. Now authorities see a danger of overrestricting the Government's loan program and scaring potential rental apartment builders back into building sales houses exclusively.

There is the pending irony of a Republican administration, out to encourage private enterprise, discouraging it through legislation.

Said one local housing economist: "The current law kills rental housing just as dead as a doorknob. You can just write it off."

(Wednesday: 4 million roofs aren't picayune)

## MANY OF THE MERITS OF FHA PROGRAM ALMOST OBSCURED BY INVESTIGATION

(Third of a series)

(By Warren Unna, staff reporter)

Almost obscured by the recent Senate Banking and Currency Committee hearings on wicked financial windfalls in rental housing is the fact that Federal assistance has had some definitely positive effects on America's postwar housing industry.

To be precise, 3,968,351 starts on dwelling units were made with Government aid between 1945 and last June 30. This represents 44 percent of the almost 9 million new housing accommodations started since the war.

Since America had only 37.6 million occupied units in 1945, much of the country today dwells in buildings less than 10 years old.

Housing and Home Finance Agency Administrator Albert M. Cole, the Nation's top housing official, recently labeled the windfalls from multirental housing construction "shocking."

But he added: "There is no basis whatever for suspecting that these sore spots, which we are cutting out, imperil the basic soundness and health of the whole (Federal housing) program. We are not going to tear up the machinery because some of the parts need replacing \* \* \*."

What Cole had in mind was that since the war:

Some 2,394,109 starts have been made in Federal Housing Administration-sponsored units for which the FHA gave its guaranty on 80 to 95 percent of the mortgage, charged the builder one-half percent for services and saw to it that he paid only 4 percent interest on the money he had to borrow.

Some 1,267,903 starts have been made on Veterans' Administration-sponsored houses for which the former GI usually had to make no downpayment at all and, until a recent one-half percent boost, paid off his loan at 4 percent interest.

Some 286,700 starts have been made on Public Housing Administration-sponsored units which have been rented back through State and community agencies to families in the lower income brackets.

Some 19,639 loans have been made for new housing and improvements on old housing and other farm buildings by the Department of Agriculture's Farmers' Home Administration. The loans have covered up to 100 percent of cost and have been generally granted at 3 percent interest.

In addition, the Government has backed up billions of dollars in loans for home repairs, assisted in slum redevelopment and land planning.

The Capitol Hill hearings have had the advantage of hindsight in pointing out loopholes in postwar housing legislation.

They have shown that a several hundred thousand dollar profit on FHA-guaranteed apartments represents something more than the inducement necessary to get these buildings up.

But local housing experts believe the situation might be better understood if the Senate Banking and Currency Committee set the windfall picture in perspective with America's post-V-J Day economy.

When the Hiroshima and Nagasaki A-bombs brought World War II to a fast stop in August 1945, America's multibillion dollar defense program in good part stopped with it. Civilian production had been cobwebbed for 4 years and national economic planners began talking about another post-World War I depression. This time they had in mind a whopping unemployment roll of 8 million.

In the first few postwar months, the War Production Board gave housing the green light—more to help roof the millions of returning veterans than to solve the unemployment threat.

Commented Senator John J. Sparkman (Democrat, Alabama): "The stepup in housing undoubtedly contributed to bolstering the postwar economy. Construction is perhaps the best antidepression program you can have because it puts so many types of industry to work."

Bureau of Labor Statistics figures show that housing construction climbed from \$5,644 million in 1946 to \$6,500 million in 1947 to \$8,700 million in 1948.

The building material industries required to produce this housing boosted the effect on the national economy much higher. The construction industry as a whole, according to the Bureau of Labor Statistics, now accounts for from 10 to 15 percent of everything produced in America.

The National Association of Home Builders, spokesman from private industry, declares in its book, *Housing USA*, that Government concern with housing is at least as old as King Hammurabi's construction code for ancient Babylon.

As for America, the book concludes: "The net effect of total Federal retirement from the housing picture probably would be detrimental to builder, homeowner and country alike." The NAHB is careful to maintain that a police eye should be kept open to be sure Government doesn't overplay its role.

Henry Luce's *House and Home* magazine editorialized in May: "The Federal Housing Administration is the best thing that ever happened to the home-buying public \* \* \* it has enabled millions of families to own far better homes than they could otherwise afford \* \* \* (it is) the No. 1 example of Government and business partnership at no cost to the taxpayer."

(Thursday: Throwing everything in the pot.)

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#### FANCY LURES USED IN COURTING BUILDERS

(Fourth of a series)

(By Warren Unna, staff reporter)

A windfall, according to Webster, is "anything blown down or off by the wind \* \* \* an unexpected legacy or other gain."

A wicked windfall, according to the Senate Banking and Currency Committee, which recently concluded the Washington phase of its housing probe, is what showered down on the builders of rental apartments under section 608 of the National Housing Act's title VI.

Others in the building field contend the windfall is not a result of the National Housing Act but of loopholes and evasion in income-tax payments.

Early this year, Internal Revenue Commissioner T. Coleman Andrews brought Congress the news that an analysis of tax returns indicated 219 corporations had made a windfall of \$65 million in putting up 70 of these "608" apartment buildings. Six structures are in the District, the rest distributed through 18 States.

Andrews hopes to collect at least 28 of these \$65 million for the Federal Treasury and in some cases the Government is considering criminal as well as civil action.

Senator Homer E. Capehart (Republican, of Indiana), Banking and Currency Committee chairman, has called the windfalls "outrageous."

Senator Harry F. Byrd, Democrat, of Virginia, declared such greed by builders has hiked the rent of their Government-sponsored apartments some 15 to 25 percent.

Senator Burnet R. Maybank, Democrat, of South Carolina, has charged the Republicans, through their selection of investigation witnesses, with trying to shape the situation into a "Democratic scandal."

And Senator John J. Sparkman, Democrat, of Alabama, has warned that a "stigma" has been thrown over the whole home-building industry because of the sharp practices of a "relatively few" rental building profiteers.

These statements from both sides of the political aisle neither reinforce nor cancel themselves out. Rather, they typify a housing situation that is more speckled than black and white.

The 608 situation goes back to 1942 when the same Senate Banking and Currency Committee knowingly reported out legislation that was loosely drawn—at both industry and Government's behest—in order to tempt builders into putting up rental housing.

The 608 measure had five main inducements:

It declared projects would be given a 90-percent Federal Housing Administration-guaranteed mortgage instead of the previous 80 percent.

This meant that, at most, builders would only have to look elsewhere for 10 percent of their costs—the rest of the money was insured in advance.

It declared that the FHA appraisal would be estimated on the "necessary current cost" to a typical builder putting up a typical building, rather than the old "long-range value" criterion.

This meant that an experienced builder could assure himself of building cheaper than the average man. He could also anticipate that, appraising being an inexact science at best, the apartment-hungry FHA agent would give him the benefit of the doubt.

It indicated the builder didn't have to start paying back interest on his mortgage until 18 months after the project was underway.

This meant that many builders, their project completed in 9 to 12 months, could be receiving rental income before they had to begin paying bills.

It allowed a builder to appraise his land value as if the apartment were already sitting upon it, instead of its actual cost to him before construction.

Its 4-percent Government guaranty made financing so attractive to mortgage lenders they actually paid builders 2 to 4 percent of the entire mortgage just to attract their business.

In addition to these inducements, FHA agents toured the country selling the 608 scheme to dubious builders. The recent Senate hearings intimated FHA representatives were actually telling builders how they could make a sizable profit.

The Senate Banking and Currency Committee members should be the last to register surprise at that. Their committee report of April 5, 1946, declared: "It is the specific intent of the Congress that those in charge of the (608) program should make every reasonable effort to obtain a substantial volume of rental housing."

On top of all these persuasions, sharp-eyed builders perceived they might own the apartment project as well as build it. They did this through a means variously known as mortgaging out or "throwing everything in the pot."

This meant that a builder-owner would deduct nothing from his project costs for contractor's profit, architect and engineering fees, and rental for the use of grading and construction equipment.

In other words, as much capital as could be possibly conserved was "thrown in the pot" for future distribution.

One result of this was to stretch out the FHA-guaranteed 90-percent mortgage so that the builder-owner was able to put up his project on this money alone—no need to shop around for an additional 10 percent.

Another result was in taxes. Where the builder-owner mortgaged out to pay himself for services actually rendered, the operation was perfectly legitimate. But the windfall people also saw the device as a tax dodge.

On advice of attorneys (in at least one instance the New York firm with which Attorney General Herbert Brownell, Jr., was associated), builders decided to liquidate their corporation once the project was completed. They then distributed whatever was left in the pot as capital gains. In other words, they taxed themselves at 25 percent instead of the 52 percent the Internal Revenue Service charges against annual corporation income.

The result of all this has been speckled.

Everyone but the fly-by-night builders themselves have a feeling the overvaluated windfall was unethical.

Tenants have a suspicion that rents might be a good deal lower if the profits went to paying off the mortgage, thereby knocking down the building's interest payments.

And the Internal Revenue Service feels it has a lot more money due—the difference between 52 percent corporation income and 25 percent capital-gains taxes—and is trying to get the legal permission to collect.

As for mortgaging out, some of it is not only legitimate but the Capehart committee specifically allowed for it in this year's Housing Act.

The default problem is minor. As of March 31, only 273 of the 7,069 projects started between the end of the war and 1950 had been returned to the FHA. Of these, the Government has already sold 29 and at a profit of \$147,000.

In another aspect of its investigation, the Senate Banking and Currency Committee has said "racketeers" have taken great advantage of persons who have borrowed up to \$2,500 apiece in FHA-guaranteed home repair loans.

Senator Harry F. Byrd, Democrat, of Virginia, accused the FHA of backing \$7,830,000,000 worth of home repair loans without ever bothering to see if the homeowners were being charged a fair price for their repair work.

FHA's reply to this is the home-loan law is specifically written so that the loan reports are only made to FHA after the loan is made and actual details never reach its office unless there is a default.

#### BOTH SIDES OF AISLE VOTED FOR SECTION 608

Both sides of the political aisle have voted for the National Housing Act's controversial section 608 which made windfalls possible in building postwar rental apartment projects.

Voting on April 10, 1946, to substitute "necessary current cost" for "reasonable replacement cost" in FHA mortgage appraisals were Senator Homer E. Capehart, Republican, of Indiana, current chairman of Senate Banking and Currency Committee; Senator Burnet R. Maybank, Democrat, of South Carolina, former committee chairman; and Senator J. W. Fulbright, Democrat, of Arkansas. Others on current committee had not yet been elected to Senate.

Voting on April 21, 1949, to extend section 608 and increase mortgage authorization by \$500 million were Capehart; Maybank; Fulbright; and Senators Irving M. Ives, Republican, of New York; John J. Sparkman, Democrat, of Alabama; J. Allen Frear, Jr., Democrat, of Delaware; and Paul H. Douglas, Democrat, of Illinois. Opposing the bill were Senators John W. Bricker, Republican, of Ohio, and A. Willis Robertson, Democrat, of Virginia.

Voting on March 15, 1950, in an unsuccessful attempt to extend section 608's application cutoff date were Capehart and Bricker. Voting against 608's extension were Maybank, Ives, Fulbright, Robertson, Sparkman, Frear, Douglas, and Senator Herbert H. Lehman, Democrat, of New York.

(Friday: Cafritz thumbs his nose.)

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#### FEELINGS OF CAFRITZ RUFFLED BY INGRATES

(Last of a series)

(By Warren Unna, staff reporter)

When Morris Cafritz a few weeks ago thumbed his nose at the Capehart committee's probe into windfall rental housing projects by calling its investigation headline hunting some local builders applauded and thought, "About time."

The construction of some 15,000 Washington homes and a string of luxury office buildings and apartments has given Cafritz an obviously solid footing in the local business world.

He, therefore, didn't like it at all when the Senate Banking and Currency Committee shouted forth Cafritz had made a wicked \$552,000 windfall on his Parklands Manor apartment project and already divided the kitty among his three sons.

"The Government came to me to build that project. They said they badly needed rental housing for minorities. I had only used a Federal Housing Administration mortgage once before—a very small \$600,000 project in 1947—and didn't like it. I don't like the idea of government in private industry," Cafritz declared the other day in his 10-foot-square headquarters office at 1404 K Street NW.

"But I went ahead and built the project. Then, instead of calling me up and saying, 'Well done, Mr. Morris Cafritz, you did a great job,' they shout 'windfall.'"

Cafritz said he hadn't much inclination then to utilize Government housing aid and now he is sure he never will again.

Parklands Manor is a 600-unit project at 3325 Stanton Road SE., which was completed in 1952. Rents vary from \$68 to \$69 monthly for 1-bedroom apartments with utilities, to \$81.75 for 2-bedroom units. Cafritz says his rents are a good \$20 below comparable projects in the neighborhood.

In 1950 FHA gave Cafritz a \$3,563,000 commitment, representing a 90-percent mortgage guaranty on what at "necessary current costs" was estimated to be a \$3,959,000 project.

FHA allowed Cafritz \$6,000 per unit for his 600 apartments. He said heretofore builders had been allowed \$8,100, but the need for minority housing was so great he agreed to take on the close transaction as a community service.

Cafritz decided to make Parklands Manor the first entity on a 100-acre tract he had purchased for \$69,000 (at \$690 an acre) in 1941 and incorporated for his three sons. The sons exchanged 22 acres of their Parklands, Inc., for Parklands Manor stock and the FHA appraised these acres in 1950 at \$420,000.

Cafritz then decided to save the project a \$17,800, one-half percent FHA construction examination charge and another \$17,800, one-half percent FHA loan draw-down fee by not tapping the FHA-guaranteed mortgage until Parklands Manor was completed and 90 percent occupied.

He also decided it was much more economical to borrow at one-half percent interest from "the idle money in the 25 or 30 companies I control" than to borrow

that money conventionally at 4 percent a year. An extra \$400,000 in capital was thrown in interest free by Cafritz himself because he saw no sense in charging his own sons for a loan.

Because Cafritz already had a permanent architectural and engineering staff, such services cost Parklands Manor much less than the 10 percent allowed for in the FHA appraisal. Building supplies, too, came much less—Cafritz is both a large-scale customer and a shrewd purchaser.

The one item that did cost more was equipment. Cafritz had allowed \$50,000 for that, figuring he could utilize the machinery he had. Actually, he found it was inadequate and had to plunk down \$11,000 to rent additional equipment.

Once Parklands Manor was completed, Cafritz borrowed the \$3,563,000 allowed him by the FHA guaranty. He got the money from the Drydock Savings Co. of New York at only 3½ percent interest. Parklands Manor's bills were then paid and, as Cafritz expresses it, he found "\$500,000 or so [actually \$552,000] left over for a nest egg."

Cafritz left the money in the pot. He has already expanded the Parklands area to 112 buildings with 1,500 units. Eventually, he will build another 500 units.

He is proud of his tenants, selects them on their ability to pay, won't allow them to move in with more children than bedrooms can hold. Cafritz maintains a nursery school, playgrounds and laundry facilities and is now thinking of endowing Parklands with a large swimming pool to promote community well-being.

As Cafritz looks at his project, it has filled a critical housing need for minorities, put many people to work, provided the District with real-estate taxes and both the District and the Federal Government with income taxes.

The Washington builder concedes there may have been windfalls in FHA's 608 program when the Government in its anxiety to get rental apartments built, overappraised unit costs and guaranteed more mortgage money than needed.

To get around that, Cafritz thinks the FHA should insert a clause in its contracts requiring money left over in the pot to be applied toward paying off the mortgage.

As for himself and Parklands Manor, Morris Cafritz declares: "There was no windfall. No money was paid out. They should be tickled pink. Instead they cry 'Very unfair. Very unfair'."

And as for Cafritz's wife, Gwen, famed for her Foxhall Road NW. lawn levees, the hostess' recent gala for the daughter and son-in-law of Generalissimo Francisco Franco was embellished with a huge vase containing two dozen large yellow roses.

The card was signed by Senator Homer E. Capehart, Republican, Indiana, chairman of the Banking and Currency Committee. He and Mrs. Capehart were sorry they couldn't make it.

The CHAIRMAN. We are just trying to keep the record straight in this testimony.

We appreciate your cooperation and we know that you people are going to cooperate with us and that you want to help clean this matter up.

We would like to suggest to you if you have any suggestions that you think will improve the law and clean up this matter better, that you prepare them and let us have them so that we can introduce them in the Congress the first day Congress convenes next year.

We will appreciate it very, very much if you will give us that kind of help and I know you will.

Mr. HUGHES. Thank you.

The CHAIRMAN. I want to make this statement: I hold in my hand an AP story from the ticker read over the telephone from the Atlanta Journal.

STATESBORO, GA. (AP).—A blast was fired at the Capehart Senate investigating committee yesterday by Representative Preston, Democrat of Georgia, for what he termed the committee's efforts to imply he did something wrong in a housing deal.

In a speech to the First District Congressional Convention, accepting his Democratic nomination for a fifth term in the House, Preston said he expects the Capehart committee to turn its spotlight on Statesboro's mayor, William A. Bowen.

Preston and Bowen were associated in a private housing plan in Savannah in 1949.

Preston told the convention the Capehart committee is trying to "make political capital on the eve of the November election of a legitimate business enterprise" in which he and his associates made a profit.

He said: "I assure you that at no time did I use my office to influence any official. There was not one Federal dollar involved and there was no guaranty of any loan by the Government."

A motion, expressing full confidence in Preston, was adopted by the convention.

I also understand that Congressman Preston likewise issued a statement in which he accused me of being a character assassin. For that reason I will be the first witness at 2 o'clock this afternoon, followed by Mr. Bowen, the builder in Savannah, Ga.

The unusual part of this whole matter is that we haven't said a word about Congressman Preston in this committee. There has been no public hearing. Where he secured his information can only be from an executive session given to him by his partner, Mr. Bowen, himself, because we have not given out any information on the matter to the press. We are not calling the Congressman as a witness but it is in the newspapers and for that reason I shall take the witness stand at 2 o'clock followed by Mr. Bowen, who did handle the whole matter.

We will now recess until 2 o'clock.

(Whereupon, at 12:45 p. m. the committee recessed to reconvene at 2 p. m., the same day.)

#### AFTERNOON SESSION

(Whereupon, the committee reconvened, pursuant to recess, at 2 p. m.)

The CHAIRMAN. The committee will please come to order.

Before Mr. Bowen, of the Nelson Apartments, of Savannah, Ga., testifies, I would like to be a witness and I am going to ask my colleague and a member of this committee to preside while I testify, if you will, please.

Senator BEALL. Will you raise your right hand, please? Do you solemnly swear that the evidence you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF HOMER E. CAPEHART, A UNITED STATES SENATOR FROM THE STATE OF INDIANA

Senator CAPEHART. I do.

Senator BEALL. What is your name?

Senator CAPEHART. Senator Homer E. Capehart, and I am chairman of this committee, and Mr. Presiding Chairman, I would like to make a statement in behalf of the testimony that is going to be given in a few minutes, or when I am finished, by Mr. Bowen, William A. Bowen, of the Nelson Apartments, Savannah, Ga.

The reason I am making this statement is the fact that Congressman Preston, of Georgia, issued a couple of press releases, today—this morning, I believe—in one of which he accuses me of indulging in character assassination. Over the United Press and over the AP wires he accuses this committee of dealing in politics on the eve of the election.

I have the AP press release. I do not have the United but I shall read the AP release. It says:

STATESBORO, GA., Associated Press.—A blast was fired at the Capehart Senate investigating committee yesterday by Representative Preston, Democrat, of Georgia, for what he termed the committee's effort to imply he did something wrong in the housing deal. In a speech in the first district congressional convention accepting his Democrat nomination, for a fifth term in the House, Preston said he expects the Capehart committee to turn its spotlight on Statesboro's Mayor William A. Bowen. Preston and Bowen were associated in a private housing plan in Savannah in 1949. Preston told the convention the Capehart committee is trying to make political capital on the eve of the November election, of a legitimate business enterprise in which he and his associates made a profit. He said, "I assure you at no time did I use my office to influence any official. There was not one Federal dollar involved and there was no guaranty of any loan by the Government." A motion expressing full confidence in Preston was adopted by the convention.

Well, now, here are the facts as far as myself is concerned, and the committee.

On June 4 of this year, the FHA, through Mr. Cole and Mr. Mason and Mr. McKenna, who was the counsel for a special sort of a committee they set up within FHA, to investigate the FHA, handed this committee, as well as the press, a list of what they called section 608 FHA-insured mortgage loans in excess of costs on projects reviewed as of June 4, 1954. On that list, on page 2, appeared the name—

Nelson Apartments, Inc., Savannah, Ga. The principals are William A. Bowen, Savannah; James L. Sundy, Savannah; Sylvan A. Byckwick, and Rives Worrell. Paid in capital stock, \$7,500. Mortgage loan, \$1,402,000, reported cost of project, \$1,176,500, windfall \$225,500, amount of distribution of windfall, \$250,000.

In line with the policy of this committee and its chairman, I handed that complete list to our staff, the complete list of the so-called windfall projects, and asked them to investigate each and every one of them. They proceeded to do so. But, of course, it took a long time. On Tuesday of this week for the first time, they were able to get to the Nelson Apartments, Inc., of Savannah, Ga., and Mr. William A. Bowen appeared in executive session at 9 o'clock on Tuesday morning in Capitol Building, in room F-41. He was interviewed by two members of our staff, Mr. Sells, a professional career man who has been loaned by a department of Government to this committee, and Mr. Bush, representing the minority. They interviewed Mr. Bowen, under oath.

When Mr. Bowen was called, all we knew about the Nelson Apartments, Inc., was that they were in Savannah, Ga.; that there were four principals, and the amount of the mortgage that I just read to you. We had absolutely no idea that Congressman Preston's name would even be mentioned. We didn't know that he was a part and parcel of it. We had no idea that his name would be mentioned and as far as I am able to ascertain, no member of this committee gave out any information concerning that executive session.

They brought the information to me on Tuesday, Mr. Sells did, told me what happened, and I said, "Well, get me a copy of the official transcript," and he did. That was yesterday morning, on Wednesday. I said I would study it, and I did. I took it home with me last night. I studied it. I told them to have Mr. Bowen present today, and at that time I did not know whether I would call him as a witness, or not, because I had not studied the transcript.

In the meantime, someone evidently told Mr. Preston—and I don't know who it was—that Mr. Bowen had testified in executive session that he was a partner, at one time, in Nelson Apartment, Inc. Congressman Preston has seen fit to blast the committee and blast me personally, when frankly, I was thinking about the matter this morning when I was sitting at the table, as to whether we would or would not call Mr. Bowen, because this matter of who you call and who you do not, after executive committee hearings, is not easy.

I assure you it isn't easy because you want to be absolutely fair to everybody and at the same time you have a responsibility to the people and a responsibility to the committee to let the chips fall where they may. You have no right as a chairman of a committee to cover up any situation. It was not any member of this committee who injected Congressman Preston's name into executive hearings; it was his own partner, Mr. William A. Bowen.

Mr. William A. Bowen, as the record will show in executive hearings—and I think under the circumstances, now, we will want to place them in the record. As the executive hearings will show, at the tail end of the hearing—and I hold it in my hand—Mr. Sells asked Mr. Bowen if two-thirds of the stock, or  $66\frac{2}{3}$  percent of the stock that he was holding in Nelson Apartments, or at one time did hold, because it was brought out in the testimony that they had sold it for \$150,000—if any part of the  $66\frac{2}{3}$  percent of the stock that he held was being held for any other person, or persons. Mr. Bowen's answer was that he was holding half of that stock, or  $33\frac{1}{3}$  percent of it, for Congressman Preston. That they sold the stock for \$150,000 and that Congressman Preston received \$50,000 and he \$50,000 and his partner, Mr. Sundy, \$50,000. That they had paid in cash for the stock originally \$30,000 for the land, they put \$7,000 cash into the project, and they estimated that they spent another \$5,000, making the total amount the stock cost them about \$42,000.

Now, whether there was anything wrong with it, or not, I am not the judge. I did not inject the name into the hearing, nor did any member of this committee.

I am not going to say definitely that Mr. Bowen would not have been called this afternoon. I am not going to say that. I was still debating as to whether he would or would not. But, under the circumstances, when Congressman Preston attacks me personally and attacks this committee, then there is nothing for us to do except to call Mr. Bowen. I am sure Mr. Bowen's testimony will be just as it was in executive session, that he and Mr. Sundy and Mr. Preston were partners; they owned one-third each and he held in hand Mr. Preston's interests. That they organized Nelson Apartments, Inc. That when the building was about 90 percent completed they sold it to the builders for \$150,000.

I am not saying that Congressman Preston or anybody else did anything wrong. I never made a statement on it publicly. I simply close my testimony with this statement, that the facts and records will have to speak for themselves, because I am not going to accuse anybody—I haven't accused anybody—and that is my full and complete statement, unless the chairman has some questions.

Senator BEALL. I was just going to ask about that statement of Congressman Preston's. Did you read that into the record?

Senator CAPEHART. Which statement?

Senator BEALL. That he made about you.

Senator CAPEHART. I simply read a copy of a teletype from the Associated Press.

Senator BEALL. Is that in the record?

Senator CAPEHART. It is in the record; yes.

And I was told by the United Press reporter, here, that the United Press carried a story in which he attacked me personally as being a character assassin. I just want to say to you, Congressman Preston, that I did not inject your name into the executive hearings, but that your own partner did it, Mr. Bowen. I knew absolutely nothing about it and when we called Mr. Bowen up here as a result of this sheet, or list, that the FHA gave us, we had no more idea that Congressman Preston was connected with it than anything in the world. We knew absolutely nothing about it.

We knew absolutely nothing about it.

Are there any questions?

Senator BEALL. Mr. Bowen, please.

Raise your right hand, will you please, sir.

Do you solemnly swear that the statement you are about to make will be true to the best of your knowledge and belief, so help you God?

**TESTIMONY OF WILLIAM A. BOWEN, NELSON APARTMENTS,  
SAVANNAH, GA.**

Mr. BOWEN. I do.

Senator BEALL. Give your name and address, please.

Mr. BOWEN. William A. Bowen, Statesboro, Ga.

Mr. SIMON. Mr. Bowen, are you from Statesboro, Ga.?

Mr. BOWEN. Yes, sir.

Mr. SIMON. You are one of the sponsors of the Nelson Apartments project?

Mr. BOWEN. Yes, sir.

Mr. SIMON. Where is it located?

Mr. BOWEN. Savannah, Ga.

Mr. SIMON. Just so the record is clear, were you scheduled to appear in executive session of this committee on September 18, 1954?

Mr. BOWEN. September 18?

Mr. SIMON. Yes, sir.

Mr. BOWEN. Yes; I was.

The CHAIRMAN. That was in executive session.

Mr. BOWEN. Yes, sir.

Mr. SIMON. And on that day, did you send a telegram to the committee, advising that your daughter's illness prevented you from being here in Washington and that your attorney, Joseph Oliver, would appear in your stead?

Mr. BOWEN. Yes, sir.

Mr. SIMON. And on the same day, you wrote a letter to the committee which Mr. Oliver took up here and presented to the committee staff, on September 18, giving the details of this transaction; is that right?

Mr. BOWEN. That's right.

Mr. SIMON. And it says that you and Mr. Sundry were the two sponsors of the project, and it gives the details, and it ends up by saying:

I am still entirely willing to appear before you in person at a later date when the circumstances will permit. At such personal interview I shall be glad to repeat the statements herein made under oath if you wish me to do so.

Is that correct?

Mr. BOWEN. Yes.

Mr. SIMON. And the only reason you didn't come up here in September was because your daughter was ill and you wanted to stay with her?

Mr. BOWEN. My daughter was ill, with polio.

Mr. SIMON. Now, the application for mortgage commitment was filed January 27, 1950; is that correct?

Mr. BOWEN. What was your question, again?

Mr. SIMON. The application for an FHA section 608 commitment was filed January 27, 1950; is that correct?

Mr. BOWEN. The commitment was issued—

Mr. SIMON. No, the application.

Mr. BOWEN. I don't remember what the date was.

The CHAIRMAN. We hand you a photostatic copy of the original application and ask you if that isn't the date, please.

Mr. BOWEN. It shows January 27, 1950.

Mr. SIMON. And it was filed the same day? You will find a file stamp on the top of it, on the front page.

Mr. BOWEN. It shows February 28 in this stamp.

Mr. SIMON. The earliest file stamp, isn't that January 27?

Mr. BOWEN. Yes, sir.

Mr. SIMON. And it shows the sponsors as yourself and Mr. Sundy? On the front page the sponsors are listed, there.

Mr. BOWEN. Yes, sir; myself and Mr. Sundy.

Mr. SIMON. On page 3 it lists the land to be covered in the project, and does it say the value of the land is \$67,000? Is that right? Page 3, the right-hand column near the top of the page. I'm sorry. It is the left-hand column.

Mr. BOWEN. It shows here land at \$67,000.

Mr. SIMON. Now, when did you buy the land? Was it in the same month of January 1950?

Mr. BOWEN. I think that's correct.

Mr. SIMON. And you paid \$30,000 for the land?

Mr. BOWEN. In round figures, yes.

Mr. SIMON. Who put up that \$30,000?

Mr. BOWEN. As I recall, we optioned that land. I don't know whether we took title to it at the time we optioned it, or not. When I say "optioned," I mean we agreed to buy the land. It was a sale, but we did not close the sale.

Mr. SIMON. When did you sign the option agreement?

Mr. BOWEN. That I don't know.

Mr. SIMON. Would it be shortly before the January 27 date?

Mr. BOWEN. That's correct.

Mr. SIMON. And the option price was \$30,000.

Mr. BOWEN. Roughly, that's correct.

Mr. SIMON. And the price you put in the application was \$67,000?

Mr. BOWEN. We paid \$30,000 for the bare land.

Mr. SIMON. And you put \$67,000 in the application for the bare land?

Mr. BOWEN. Did I put that in there or did FHA put it in there?

The CHAIRMAN. Well, it is in there.

Mr. SIMON. Let me ask you: Who did put it in?

Mr. BOWEN. That I don't know.

Mr. SIMON. Did you sign that application?

Mr. BOWEN. Yes.

Mr. SIMON. Is it in the same condition now as when you signed it, or has somebody made some changes?

Mr. BOWEN. I would think it was in the same condition. I don't know.

Mr. SIMON. Is that \$67,000 your figure, or that of FHA? I might say that the project analysis that I have, of FHA, knocked it down \$1,000 and valued it at \$66,000.

Is that \$67,000 your figure, Mr. Bowen?

Mr. BOWEN. Mr. Counsel, I don't know.

Mr. SIMON. You don't know?

Mr. BOWEN. No, sir.

Mr. SIMON. Do you know who could have put it in there, if you didn't?

Mr. BOWEN. Well, whoever helped me to make up the application.

Mr. SIMON. And who was that?

Mr. BOWEN. A Mr. Gurley.

Mr. SIMON. When did you pay for the land?

Mr. BOWEN. I think we made a partial payment on the land in January.

Mr. SIMON. How much did you pay in January?

Mr. BOWEN. I really don't remember.

Mr. SIMON. A matter of \$1,000, or \$10,000, or \$15,000?

Mr. BOWEN. I think it was from \$1,500 to \$3,000. I don't know.

Mr. SIMON. And when did you pay the balance?

Mr. BOWEN. Just prior to closing, or at the time of closing.

The CHAIRMAN. Do you mean at the time of closing on the mortgage commitment?

Mr. BOWEN. Yes, sir.

Mr. SIMON. Did you pay the balance out of the mortgage funds, or out of your own funds?

Mr. BOWEN. That I don't remember.

Mr. SIMON. Who put up the \$30,000 to buy the land?

Mr. BOWEN. To the best of my recollection, Mr. Sundry and Mr. Preston and I put up the money.

Mr. SIMON. Did you put up \$10,000 each?

Mr. BOWEN. I don't remember the exact figures, but as best as I recall, we shared and shared alike in the expenses.

Mr. SIMON. How much did you put up, Mr. Bowen, of your own money?

Mr. BOWEN. Mr. Simon, that has been 4 years ago. I don't recall.

Mr. SIMON. Don't you have any records?

Mr. BOWEN. I think I have the records.

The CHAIRMAN. Isn't it a fact that you put up \$10,000, Mr. Preston \$10,000, and Mr. Sundry \$10,000?

Mr. BOWEN. That I think is correct.

Mr. SIMON. Did you put this money up from your own money, or did it come from the mortgage proceeds?

Mr. BOWEN. I think it came from our own money.

Mr. SIMON. Don't you know, though?

Mr. BOWEN. Not right offhand.

Mr. SIMON. Well, you didn't pay the balance beyond this \$1,500 or \$3,000 until the closing of the mortgage; is that right?

Mr. BOWEN. I think that's correct, sir.

Mr. SIMON. Could it then be that you paid the balance out of the mortgage proceeds?

Mr. BOWEN. It could be.

Mr. SIMON. You just don't know?

Mr. BOWEN. I don't know.

Mr. SIMON. When was the corporation incorporated?

Mr. BOWEN. May 2, 1950.

Mr. SIMON. That was 4 months after the commitment was issued? Or 3 months? Is that right?

Mr. BOWEN. Approximately 3 months, yes.

Mr. SIMON. Was this a partnership up until then?

Mr. BOWEN. We were operating as Bowen-Sundy Enterprises.

Mr. SIMON. Was that a partnership?

Mr. BOWEN. Yes.

Mr. SIMON. Now, the capital stock was \$7,000; is that right?

Mr. BOWEN. Approximately that, yes.

Mr. SIMON. Who paid in the \$7,000?

Mr. BOWEN. As I remember, it was the three of us.

Mr. SIMON. Each paid in a third?

Mr. BOWEN. Yes.

Mr. SIMON. \$2,333 apiece?

Mr. BOWEN. Whatever the third figures to.

Mr. SIMON. Who are the three?

Mr. BOWEN. Mr. Sundy, Mr. Preston, and I.

Mr. SIMON. To whom was the stock issued?

Mr. BOWEN. The stock was issued to W. A. Bowen and James L. Sundy.

Mr. SIMON. Just the two of you?

Mr. BOWEN. That's correct.

Mr. SIMON. How much stock was issued to Mr. Sundy?

Mr. BOWEN. Thirty-three and a third percent.

Mr. SIMON. How much stock was issued to you?

Mr. BOWEN. Thirty-three and a third percent to me, and I held  $33\frac{1}{3}$  percent as nominee.

Mr. SIMON. Did the certificates show that you held it as nominee?

Mr. BOWEN. I don't know. I think so. I am reasonably sure.

Mr. SIMON. What did the certificate say?

Mr. BOWEN. That I don't remember. "W. A. Bowen, nominee," I think.

Mr. SIMON. Who were you nominee for?

Mr. BOWEN. T. H. Preston.

Mr. SIMON. Why wasn't the stock issued to Mr. Preston if he put up a third of the money?

Mr. BOWEN. That is a question I couldn't answer for Mr. Preston. Probably for business reasons.

Mr. SIMON. Did he tell you that he didn't want the certificate of stock issued to him?

Mr. BOWEN. He asked me would I handle the transaction for him.

Mr. SIMON. And have the certificate issued in your name?

Mr. BOWEN. Yes.

Mr. SIMON. Now, when you wrote this committee on September 18, you said that you and Sundy were the only stockholders; is that right?

You didn't use the word "only," but you said the stockholders were you and Sundy.

Mr. BOWEN. That's correct.

Mr. SIMON. Why didn't you say there was a third stockholder?

Mr. BOWEN. Well, I held the stock as nominee.

Mr. SIMON. Now, the commitment of FHA was issued on what date?

Mr. BOWEN. February 28, 1950.

Mr. SIMON. February 18, 1950. And it wasn't until May that you incorporated the company; is that right?

Mr. BOWEN. That's correct.

Mr. SIMON. Now, was Mr. Preston a partner in this Bowen & Sundy partnership?

Mr. BOWEN. Yes, sir.

Mr. SIMON. He was?

Mr. BOWEN. Yes, sir.

Mr. SIMON. Then you entered into a contract with the Bick-Worrell Co. to build the project; is that right?

Mr. BOWEN. That's right.

Mr. SIMON. Did that contract provide that the building was to be built on a basis of cost, plus 5 percent, but in no event to exceed \$1,202,791?

Mr. BOWEN. That's right.

Mr. SIMON. And during the course of construction, you sold your stock to these builders for \$150,000; is that right?

Mr. BOWEN. That's right.

Mr. SIMON. Now, when you turned the land over to the company, the company issued its note for \$30,000; is that right?

Mr. BOWEN. I think that's correct.

Mr. SIMON. Was that note still an obligation of the corporation after you sold your stock?

Mr. BOWEN. Yes.

Mr. SIMON. So that you got \$150,000 for your stock and also got reimbursed for the cost of the land?

Mr. BOWEN. I think so; that's correct.

Mr. SIMON. Your total investment, then, was \$7,000, for which you got \$150,000 or a profit of \$143,000?

Mr. BOWEN. That is roughly what it was.

Mr. SIMON. Now, for that \$143,000, did the buyer get anything other than a commitment from FHA?

Mr. BOWEN. What was that question again, please?

Mr. SIMON. Did the buyer receive anything other than the FHA commitment, for the \$143,000 that you had received?

Mr. BOWEN. They got the corporation, lock, stock, and barrel.

Mr. SIMON. But the corporation as I gather it, had three assets. One was the land—and even after you sold out, they still had to pay you for the land; is that right?

Mr. BOWEN. I am not sure on that.

Mr. SIMON. That is what you just testified to.

Mr. BOWEN. I think that's correct.

Mr. SIMON. Secondly the corporation had a contract with this company to build the building for an amount not to exceed \$1,302,000; is that right?

Mr. BOWEN. That's correct, approximately.

Mr. SIMON. And you sold the stock to the construction company that had the contract.

Mr. BOWEN. That's right.

Mr. SIMON. So the only thing left in the corporation was the FHA commitment, wasn't it?

Mr. BOWEN. We sold the corporation lock, stock, and barrel.

Mr. SIMON. But the only thing in the corporation was the contract with the construction company, the land, and the FHA commitment; isn't that true?

Mr. BOWEN. That is true.

Mr. SIMON. And the land——

Mr. BOWEN. I could elaborate on that a little, if I may.

Mr. SIMON. Be glad to have you.

Mr. BOWEN. There was a lot of work that went into it.

Mr. SIMON. Who did that work?

Mr. BOWEN. I did most of it.

Mr. SIMON. What did Mr. Sundry do?

Mr. BOWEN. He assisted.

Mr. SIMON. What did Mr. Preston do?

Mr. BOWEN. I did the work, Mr. Sundry and I. Mr. Preston didn't do anything.

Mr. SIMON. He didn't do any of the work?

Mr. BOWEN. No.

Mr. SIMON. Now, between Tuesday morning and now, have you talked to Mr. Preston?

Mr. BOWEN. Yes.

Mr. SIMON. And did you tell him that at the executive session on Tuesday morning, you were asked the questions which required you to give the answer that he was a third owner of this company?

Mr. BOWEN. Yes.

Mr. SIMON. You told him that?

Mr. BOWEN. Yes.

Mr. SIMON. So as far as you know, did he know that before you told him that?

Mr. BOWEN. What's that question again?

Mr. SIMON. So far as you know——

Mr. BOWEN. So far as I know.

Mr. SIMON. Did he know that this committee was aware of that fact prior to the time you told it to him?

Mr. BOWEN. So far as I know, no.

Mr. SIMON. Is there any doubt in your mind as you sit there now, that the only person who had communicated publicly what went on at that executive session was yourself?

Mr. BOWEN. So far as I know.

Mr. SIMON. Thank you, sir.

The CHAIRMAN. Any further questions?

Thank you very much, Mr. Bowen. I appreciate your testimony.

We will place in the record the letter that Mr. Bowen wrote this committee under date of September 18, 1954, in which he failed to tell us in that letter that Mr. Preston owned any stock; also the executive hearing held with Mr. Bowen on October 5, 1954.

DEAR MR. WALTER: Confirmation copy of my telegram to you of today is enclosed.

Since my young daughter's illness will not permit me to be in Washington on next Monday, as requested by you, I have asked my attorney, Mr. Joseph M. Oliver, to present this letter which will, I hope, give you all the pertinent information you need.

During 1950, and for some time prior thereto, there was a severe housing shortage in Savannah. Hunter Air Force Base was in process of reactivation and expansion and this gave added pressure to the then existing need for housing. My associate, Mr. James L. Sundy, and I, conceived the idea of sponsoring a low-rent housing project under the FHA mortgage insurance program. Originally, we operated as Bowen-Sundy enterprises. Partly because it was near Hunter Air Force Base, we selected a site of 30.36 acres of unimproved land in the southern part of the city and purchased it on January 30, 1950, at a price of approximately \$1,000 per acre. That we were fortunate in the choice of this site and the type of structure selected is borne out by the fact that the project has consistently remained almost 100 percent occupied and the tenants have been pleased, both with the accommodations furnished and the rental charged. Mr. Sundy and I both continued hard at work on the project until the commitment was issued and the preliminary closing was had, on or about May 5 of that year. Our project consisted 220 dwelling units. In the meantime, another group of sponsors acquired the land immediately to the west of that purchased by us and secured a commitment for a similar and comparable rental-housing project, now known as Lamara Apartments, and awarded the construction contract to Byck-Worrell Construction Co., Inc., of Savannah.

When the Nelson Apartments commitment was finally issued, the FHA estimated the cost of construction at slightly in excess of the sum of \$1,302,000. Neither Mr. Sundy nor I had ever built a project that would cost anything like that amount and, frankly, we were hesitant about undertaking the construction ourselves. We had bids from three reputable contractors, Close Construction Co., Jerome Construction Co. and Byck-Worrell Construction Co., Inc. Byck-Worrell was the low bidder and, on May 5, 1950, the contract was awarded to Byck-Worrell Construction Co., Inc., at \$1,302,791 but with the understanding that, at the conclusion of the job, Byck-Worrell's actual cost would be ascertained and to that, there would be added a reasonable profit of 5 percent and that, under no circumstances, would Byck-Worrell be paid more than \$1,302,791. This arrangement was satisfactory to Byck-Worrell, as the construction industry and construction operating conditions around Savannah at that time were unsettled.

After having bought the bare land, without utilities or streets, at approximately \$1,000 per acre, it was our responsibility to arrange for the installation of the utilities, for the cutting of the streets and for the provision of pavement, curb, gutter, and landscaping.

You will recall that this construction contract was awarded and the preliminary closing had just prior to the opening of hostilities in Korea. When Mr. Sundy and I were approached by the Byck-Worrell interests at a later date, with a proposition of selling to them our stock in Nelson Apartments, Inc., we finally agreed to do so, feeling that our lack of experience in this field, plus all the unsettled conditions, when added to the fact that we had a competing project right next door to ours, made it too risky not to accept the proposition of selling our stock for \$150,000. Another thing that made us decide to sell was the advice we had received that a straight sale by us of our stock in the corporation would be treated for income-tax purposes as a capital gain, as opposed to normal income, had we retained ownership of the property and operated it at a profit.

At no time did either Mr. Sundy or I receive any salary, bonus, stock redemption, or any other sort of profit whatsoever from the corporation. This profit on the sale of our stock was duly shown on our respective income-tax returns and the tax due thereon paid on a capital-gains basis.

After the sale of the Byck-Worrell group, neither Mr. Sundy nor I retained any interest whatsoever in Nelson Apartments. We at no time had any interest in Byck-Worrell Construction Co., Inc. In other words, at no time was there any community of interest as between Mr. Sundy and myself on the one hand and the Byck-Worrell group on the other.

I am still entirely willing to appear before you in person, at a later date, when circumstances will permit. At such personal interview, I shall be glad to repeat the statements herein made, under oath, if you wish me to do so.

For the purposes of your record, I would like to state that, during all of the time Mr. Sundy and I were working on this project, there was never, at any time, any inducement offered or made to any person in FHA and this commitment was issued without anything of value ever being paid to, or given by, either of us, directly or indirectly to any person in FHA.

Very truly yours,

WILLIAM A. BOWEN.

(The telegram referred to in Mr. Bowen's letter follows:)

Regret illness of my young daughter prevents my intended appearance at your office as requested. My attorney, Joseph M. Oliver, will appear in my stead. Mr. Oliver will bring information requested by you and I will appear at a later date if necessary.

WILLIAM A. BOWEN.

(The testimony of the executive session held with Mr. Bowen on October 5, 1954, follows:)

#### EXECUTIVE SESSION

The hearing convened, pursuant to notice, at 9 a. m., in room F-41, United States Capitol.

Staff members present: Messrs. Sells and Bush.

Also present: W. A. Bowen, Joseph Oliver (attorney for Mr. Bowen), and William P. Sullivan (notary public).

Mr. SELLS. Mr. Bowen, for the record, will you state your full name, please?

Mr. BOWEN. William A. Bowen.

Mr. SELLS. I will ask the reporter to swear the witness, please.

Mr. SULLIVAN. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BOWEN. I do.

Mr. SELLS. Mr. Bowen, you are accompanied today by Mr. Oliver; is that correct?

Mr. BOWEN. That is correct.

Mr. SELLS. Mr. Joseph Oliver?

Mr. BOWEN. Yes.

Mr. SELLS. He is your counsel; is that correct?

Mr. BOWEN. Yes.

Mr. SELLS. My name is Charles Sells, Mr. Bowen, and I am one of the assistant counsel for this committee. I am sure that you by now know why you were asked to come here. You know probably something about what this committee has been doing. We have been conducting a rather extensive investigation of the Federal Housing Administration and the operation of the National Housing Act.

Mr. Bowen, do we have your present residence address?

Mr. BOWEN. No, I don't know whether you have it or not. Statesboro, Ga.

Mr. SELLS. Do you have a street number?

Mr. BOWEN. That is sufficient. It is a small town.

Mr. SELLS. It is a small town?

Mr. BOWEN. Yes.

Mr. SELLS. And they know you; is that right?

Mr. BOWEN. That is right.

Mr. SELLS. Mr. Bowen, you had an interest or some connection with a section 608 project, I believe at Savannah, by the name of Nelson Apartment; is that correct?

Mr. BOWEN. That is correct.

Mr. SELLS. And about when was that project built, would you tell me? I will settle for approximate dates.

Mr. BOWEN. It was in 1950, approximately.

Mr. SELLS. What was your connection with it, Mr. Bowen?

Mr. BOWEN. My connection with Nelson Apartments?

Mr. SELLS. Yes, the Nelson Apartments.

Mr. BOWEN. I was——

Mr. SELLS. Were you one of the sponsors of the development?

Mr. BOWEN. That is right.

Mr. SELLS. Well what I want to do is get the background of it. You say you were one of the sponsors. Did you have other associates in the venture?

Mr. BOWEN. Mr. Sundy.

Mr. SELLS. What is his first name?

Mr. BOWEN. James L.

Mr. SELLS. Is that S-u-n-d-a-y?

Mr. BOWEN. S-u-n-d-y.

Mr. SELLS. Were you the only two sponsors?

Mr. BOWEN. Yes.

Mr. SELLS. Now did you set up a corporation of some sort to handle the project, or get the project going?

Mr. OLIVER. I was going to say I have here the whole photostat of the record. Would it be all right if he refreshes his recollection?

Mr. SELLS. Sure. At any time. Mr. Oliver, these are very informal hearings that we hold here.

Mr. OLIVER. It would save a little time.

Mr. SELLS. You go ahead and look at the records. What I want is the background, how the thing was started, and if you used a corporation to get it going.

Mr. BOWEN. Mr. Sells, have you seen this [showing Mr. Sells a document]?

Mr. SELLS. Yes, if this is the letter that Mr. Oliver delivered to me several weeks ago, I have seen this. In fact, I think I have a copy of that.

Mr. BOWEN. You should have the original.

Mr. SELLS. Yes, I do.

Now this letter that you referred to says, I believe, "Originally we operated as Bowen-Sundy Enterprises." Was that a corporation?

Mr. BOWEN. No, that was not.

Mr. SELLS. Was that a partnership?

Mr. BOWEN. Yes.

Mr. SELLS. Would you say a joint venture, or was it a going concern? Did you do other things, besides this particular project?

Mr. BOWEN. Building houses and selling them.

Mr. SELLS. This is single-family houses for sale?

Mr. BOWEN. Yes.

Mr. SELLS. And then you got interested in building one of these 608 projects; is that right?

Mr. BOWEN. Yes.

Mr. SELLS. What was the first thing you did? Did you acquire the land or did you take some other steps first?

Mr. BOWEN. What was your question? Mr. Sells, I am a little bit hard of hearing.

Mr. SELLS. All right, Mr. Bowen. What I am trying to get is the background of how you organized and started this particular development. Now, I would be happy to have you tell me in your own words what you and Mr. Sundy did to get this thing started.

Mr. BOWEN. Mr. Sells, as I stated in this letter that you have there, we felt that there was a need for low rental housing in Savannah because they were activating and reactivating the airbase there.

Mr. SELLS. All right.

Mr. BOWEN. And we, as I stated here in the letter, began to look around for some land and did a lot of thinking on the thing.

Mr. SELLS. You finally did buy some land; is that right?

Mr. BOWEN. Oh, yes.

Mr. SELLS. Now, you and Mr. Sundy purchased the site, according to your letter, for a thousand dollars an acre.

Mr. BOWEN. Approximately.

Mr. SELLS. What was the total price for the site?

Mr. OLIVER. It shows on here as 30 and a fraction acres, the cost of which was approximately \$30,000.

Mr. BOWEN. That is without the utilities, and so forth.

Mr. OLIVER. That is the bare land.

Mr. SELLS. \$30,000. That was unimproved realty; is that right?

Mr. BOWEN. Yes.

Mr. SELLS. Was all of the 30 acres ultimately used in the Savannah project?

Mr. BOWEN. That is right.

Mr. SELLS. You used up all of the land and there wasn't any part of it left over?

Mr. BOWEN. That is right.

Mr. SELLS. Now, you bought the land before you made application for a mortgage commitment; is that right?

Mr. BOWEN. Did we buy the land—

Mr. OLIVER. They made entire payment on the land in January 1950. I am speaking from the record now.

Mr. BOWEN. I have not refreshed myself on these records.

Mr. SELLS. You may do so as we go along. If Mr. Oliver has your records here, please feel free to refresh your recollection as we go along.

I believe in January 1950 you did make application for a 608 mortgage commitment, is that right?

Mr. BOWEN. To the best of my recollection, that is correct.

Mr. SELLS. And that was made in the name of the proposed mortgagor, Nelson Apartments, Inc., is that correct?

Mr. BOWEN. Yes.

Mr. SELLS. Did you set up such a corporation as Nelson Apartments, Inc.?

Mr. BOWEN. Yes.

Mr. SELLS. When was that organized?

Mr. BOWEN. The second day of May 1950.

Mr. SELLS. May 2, 1950. Who were the principal shareholders in that corporation?

Mr. BOWEN. Bowen and Sundy.

Mr. SELLS. The two of you?

Mr. BOWEN. Yes.

Mr. SELLS. 50 percent to each of you?

Mr. BOWEN. I had 66 $\frac{2}{3}$  of it.

Mr. SELLS. You had two-thirds interest and Mr. Sundy had the other third, is that right?

Mr. BOWEN. Yes. This is the second day——

Mr. OLIVER. The second day of May 1950 is the date of the charter.

Mr. SELLS. What was the capital stock setup of the——

Mr. OLIVER. Shall I give that?

Mr. SELLS. Yes, you may do so, Mr. Oliver. You are free to speak.

Mr. OLIVER. There were 3,100 shares of capital stock, of which 100 shares were preferred stock, of the value of \$1 per share, issued to the Federal Housing Administration.

The remaining 3,000 shares were divided into class A common stock, of which there were 500 shares issued, at a par value of \$10 per share; 2,000 shares of class B common stock, without par value; and 500 shares of class C common stock, without par value.

Now my recollection is that the A stock and the B stock were issued, but the C stock was never actually issued.

Mr. SELLS. All right. How much capital was actually paid in, Mr. Oliver?

Mr. OLIVER. Let's see. 500 at——

Mr. SELLS. You had 500 shares of class A common, and a par value of \$10 a share.

Mr. OLIVER. \$5,000.

Mr. SELLS. Was that actually paid in, in cash?

Mr. OLIVER. Oh yes, paid in, in cash.

And there were 2,000 shares of class B common stock, issued at \$1 per share. That was paid in.

Mr. SELLS. So that would be \$5,000, plus \$2,000, for a total of \$7,000 paid-in capital.

Mr. OLIVER. That is correct. Plus the land, at about \$30,000.

Mr. SELLS. Was the land contributed to the corporation?

Mr. OLIVER. No. I am confused here, because this letter—and I want to look at this a minute to see whether that was represented by class C stock.

The land was conveyed, I remember this much—the land was conveyed by the then owners and directors of the corporation. And it may be that the corporation gave Mr. Bowen and Mr. Sundy a note.

Mr. SELLS. Well, is that your best recollection as to what happened?

Mr. OLIVER. It is, yes; but I can get that for you.

Mr. SELLS. Then, as I understand it, and see if this is correct, the corporation in a sense then did purchase the land directly?

Mr. OLIVER. Yes; it did.

Mr. SELLS. By taking title to the land and giving, you say, Mr. Bowen or Mr. Sundy a note for the cost of the land.

Mr. OLIVER. That is right.

Mr. SELLS. Can you tell me what the corporation paid for the land?

Mr. OLIVER. The corporation would have paid for the land exactly the price at which it was sold. If you mean did they buy it and resell, they did not.

Mr. SELLS. That is what I wanted to know. I want to know at what price the land went to the corporation.

Mr. OLIVER. At the same price, approximately \$1,000 an acre, approximately \$30,000.

Mr. SELLS. Are you sure none of the class C common stock was issued, Mr. Oliver?

Mr. OLIVER. No, sir; I am not positive.

Mr. SELLS. The reason I ask that is that information we have indicates there was \$500 worth of class C no-par common issued.

Mr. OLIVER. Then I certainly can't be positive.

Mr. SELLS. But all of the stock, all of the common stock that was issued, was issued to the two individuals, Mr. Bowen and Mr. Sundy?

Mr. OLIVER. And paid for, cash paid for; yes, sir.

Mr. SELLS. You don't know about that last class of stock?

Mr. OLIVER. I do not; no, sir. If it was issued, it was paid for.

Mr. SELLS. And then the corporation did acquire the property at the same value or the same price as actually paid for by the sponsors?

Mr. OLIVER. That is right.

Mr. SELLS. And I think you said that was approximately a total of \$30,000?

Mr. OLIVER. Yes, sir.

Mr. SELLS. Now were you able to get a commitment, Mr. Bowen? Did you get a commitment for an FHA mortgage on the property?

Mr. BOWEN. Yes, sir.

Mr. SELLS. About when was that issued, do you know?

Mr. BOWEN. February 28, 1950.

Mr. SELLS. And in what amount?

Mr. BOWEN. \$1,402,000.

Mr. SELLS. \$1,402,000?

Mr. BOWEN. Yes.

Mr. SELLS. Now did you go ahead with the project and build the project, then?

Mr. BOWEN. You mean was the project built?

Mr. SELLS. Yes.

Mr. BOWEN. The project was built; yes.

Mr. SELLS. Did you build it?

Mr. BOWEN. No.

Mr. SELLS. Tell me how it was built. What happened to it at that point? You now had a corporation set up and the corporation had a site and you had a mortgage commitment for \$1,402,000. What happened next?

Mr. BOWEN. Well, we took bids from three people, and in the windup the low bidder, who was Byck-Worrell Construction Co.—they were the low bidder. And my associate and I were a little bit threadworn with one another. I mean we were a little tired of one another, to make a long story short.

So they made us a price for the corporation and our stock, and then we sold it to them.

Mr. SELLS. If I understand correctly, you sold ultimately the stock to the construction company which had bid on the project; is that right?

Mr. BOWEN. Yes; they had bid on the project.

Mr. SELLS. Now, let me get this straight. You took bids for the corporation and there was one company, the Byck-Worrell Construction Co., which was the low bidder?

Mr. BOWEN. Yes.

Mr. SELLS. Did you award a contract to them?

Mr. BOWEN. No. Let me see if I can explain this thing to you. They gave us a low bid.

Mr. SELLS. What was that bid, do you recall?

Mr. BOWEN. I don't recall.

Mr. SELLS. Maybe this letter will refresh your recollection. This letter of September 18, which Mr. Oliver delivered—I am on page 2—says that Byck-Worrell was the low bidder. And on May 5, the contract was awarded to Byck-Worrell at \$1,302,791. Was there actually an award of the bid?

Mr. BOWEN. At the conclusion, when the contract was awarded, it was stated that when it was built, that in no event were they to get over that amount of money.

What prompted the thing was, we got into a discussion about what would constitute the construction contract—would the insurance, clerical help, so forth and so on, go into it. And we had quite a discussion about it and we didn't know exactly how to work the thing out, and finally they said, "Well, we will buy your stock," and that is how the thing worked out.

Mr. SELLS. Well, let me ask you this: Had they made any offers to you to purchase your stock prior to the time this construction contract was awarded to them?

Mr. BOWEN. No.

Mr. SELLS. In other words, there was actually an award of their contract?

Mr. BOWEN. A verbal award. We opened the bids, they were the low bidder, we got together and we were going to actually award the contract. And then we got into a discussion about what would constitute it, who was going to sign the checks and do so forth.

Mr. SELLS. But, as I understand what you just told me, this figure of \$1,302,000 was a top limit on what the construction was to cost; is that right? In other words, they could not charge more than that for building the apartments; is that right? Is that the first correct assumption?

Mr. BOWEN. That is right.

Mr. SELLS. And then, in addition to that top limitation, the understanding was that at the time the construction was finished, they were to total up their actual costs and add 5 percent?

Mr. BOWEN. That is right.

Mr. SELLS. That was the real contract price; is that right?

Mr. BOWEN. That is right.

Mr. OLIVER. That was the award, on that basis. Really it was a contract, to be renegotiated at the conclusion of the job.

Mr. SELLS. I understand.

Mr. OLIVER. But what he is talking about is that then they got into the hassle when they discussed what it was going to cost.

Mr. SELLS. Let me make this observation at this point. Assuming you had gone ahead under this contract, the contract itself called for the construction of the project at roughly \$100,000 less than the mortgage commitment; isn't that correct?

Mr. BOWEN. What is that question, again?

Mr. SELLS. Assuming you had gone ahead under this contract that you had with Byck-Worrell, the contract itself, the understanding itself, was that the construction cost or construction price would be \$100,000, roughly, less than the mortgage commitment.

Mr. BOWEN. Roughly that, yes.

Mr. SELLS. Now, as I understand it, at the time the negotiations were going on in connection with this construction contract, they made you an offer to purchase all of your stock; is that right?

Mr. BOWEN. They made us an offer after—as he said, we had quite a hassle about what was going into the cost of construction, and we fussed and fumed and finally they told us that they would buy all our stock.

Mr. SELLS. Buy you out completely; is that correct?

Mr. BOWEN. Buy our stock; yes.

Mr. SELLS. And did they do that?

Mr. BOWEN. Yes.

Mr. SELLS. They did buy you out.

Mr. BOWEN. Yes.

Mr. SELLS. Tell me a little bit about how that transaction occurred. What were the mechanics of the transaction? Was it just an outright purchase of all of your stock, Mr. Bowen?

Mr. BOWEN. You will have to answer that.

Mr. OLIVER. I am definitely not an accountant.

Mr. BOWEN. Neither am I.

Mr. OLIVER. But I can tell you this: They sold—lock, stock, and barrel—for \$150,000.

Mr. SELLS. By that you mean Mr. Bowen and Mr. Sundry?

Mr. OLIVER. That is right. The Byck-Worrell Construction Co. bought it.

Mr. SELLS. In other words, they bought all of the stock of whatever class—class A, class B, and possibly class C stock?

Mr. OLIVER. That is right.

Mr. SELLS. Which had been issued.

Mr. BOWEN. We divested ourselves completely of any interest. We sold the corporation.

Mr. SELLS. In other words, to Byck-Worrell, at a total price of \$150,000?

Mr. BOWEN. \$150,000; that is right.

Mr. SELLS. When did that sale occur? Can you tell me about when?

Mr. BOWEN. December 27, 1950.

Mr. SELLS. Had any construction been done on the project up until that time?

Mr. BOWEN. It was substantially completed.

Mr. SELLS. It was substantially completed by that time?

Mr. BOWEN. Yes.

Mr. SELLS. In other words, Byck-Worrell had started construction under their original agreement that you had with them, and then their purchase of all of your interest in the project didn't actually take place until the project was about finished; is that right?

Mr. BOWEN. That is right.

Mr. SELLS. Do you recall about when you had purchased the land, Mr. Bowen? Did you tell me that?

Mr. BOWEN. In January, to the best of my recollection. I believe that is right.

Mr. SELLS. January 1950?

Mr. BOWEN. Yes; January 30.

Mr. OLIVER. Now, this may be a pure technicality, but on January 30, 1950, that was the date on which Mr. Bowen signed a contract obligating himself to make the purchase. He paid part of the money down, so when he said he purchased it on that day he was legally obliged to buy it.

Mr. SELLS. Did you get your downpayment on the land back? When the corporation took title to the land did they give you back your downpayment?

Mr. BOWEN. As I recall it, the only thing—I say the only thing—what I got back was the sale of my stock.

Mr. SELLS. Do you recall how much your downpayment on the land was?

Mr. BOWEN. No; I do not.

Mr. SELLS. Was it about 10 percent of the——

Mr. OLIVER. About 5 percent.

Mr. SELLS. Five percent of \$30,000 would have been about \$1,500, is that right?

Mr. BOWEN. Yes. But as I recall it, Sundy and I actually paid for that land.

Mr. OLIVER. You did later on. That was the downpayment.

Mr. BOWEN. Oh, the downpayment?

Mr. OLIVER. Yes.

Mr. BOWEN. It was either 5 or 10 percent.

Mr. SELLS. You made a downpayment of \$1,500, approximately?

Mr. OLIVER. Roughly.

Mr. SELLS. Did you and Mr. Sundy yourselves, as individuals, actually pay any more toward the purchase of the land?

Mr. BOWEN. Yes.

Mr. SELLS. How much?

Mr. BOWEN. We paid it all.

Mr. SELLS. Did you pay it or did the corporation pay it?

Mr. BOWEN. We paid it; Sundy and Bowen paid it.

Mr. OLIVER. I think they paid it in cash, it was conveyed to the corporation and the corporation gave them a note.

Mr. SELLS. For the full amount?

Mr. OLIVER. That is my recollection. I think that is right.

Mr. SELLS. Is that your best recollection, Mr. Bowen?

Mr. BOWEN. Yes. But I do know we paid the full purchase price of the land.

Mr. SELLS. All right. Then at the time of the sale of your stock, all of yours and Mr. Sundy's stock, to the Byck-Worrell Construction Co., Mr. Bowen, you had invested in the project the cost of land at about \$30,000, plus your capital contribution of either \$7,000 or \$7,500, for a total of about \$37,000, is that right?

Mr. BOWEN. I think that figures about right.

Mr. OLIVER. It seems to me it must have been more than that, though, Bill, because you paid the architect for drawing the plans and you had engineering surveys made, and I think a topo had been made. I think you can safely say at least that much had been paid.

Mr. SELLS. At least \$37,000, we are pretty sure of it. If he paid the full price of the land and if he paid an original capital contribution.

Mr. BOWEN. As I recall I had a topo map made. I had to have that.

Mr. SELLS. Can you tell me how much in additional costs you and Mr. Sundry actually incurred during the period you held the land and held the stock in the Nelson Apartments Corp.?

Mr. BOWEN. I would say from \$2,000 to \$5,000.

Mr. SELLS. Suppose we give you another \$5,000 then, give you the top.

Mr. OLIVER. That is right.

Mr. SELLS. That raises it up to about \$42,000. Would you say, then that at the time you sold all of your stock to Byck-Worrell, you and Mr. Sundry had invested about \$42,000? Is that right?

Mr. BOWEN. I would say that is roughly correct.

Mr. SELLS. For which you received, in return, \$150,000, representing the price that Byck-Worrell paid for your stock. So you and Mr. Sundry netted about \$108,000. That is a net figure. Does that sound about right to you?

Mr. BOWEN. That is somewhere—I don't know whether that is correct or not.

Mr. OLIVER. If I may interrupt just a minute, that isn't right. Something is wrong with our calculations, because you made \$150,000.

Mr. SELLS. Over and above what he had invested?

Mr. OLIVER. Yes.

Mr. SELLS. Where did it come from, Mr. Oliver?

Mr. OLIVER. I don't know. As I say, I am not an accountant, I am not a figure man, but I remember distinctly—in fact, I remember the date it was sold. Mr. Byck said, "I'll give you \$100,000 and you can get out of the picture." And Bill says, "Make it \$150,000." And they went out and came back and, to everybody's amazement, that is how it was done.

Mr. SELLS. That would still be the total price, \$150,000?

Mr. OLIVER. They have that, but—

Mr. SELLS. Over and above what they had invested, is that right?

Mr. OLIVER. That is right.

Mr. SELLS. I would like to know how that same about, Mr. Oliver.

Mr. OLIVER. Well, we will get that for you.

Mr. SELLS. I am not quarreling, you understand, but I wanted to give Mr. Bowen and Mr. Sundry credit for the money they had invested in the project.

Mr. OLIVER. I may be wrong, but that is my recollection.

Mr. SELLS. What is your recollection, Mr. Bowen?

Mr. BOWEN. Well, Mr. Sells, I don't know. I got into something—I was not that kind of a builder. I got into something that I never dreamed of. Well, I don't think we want to go into all of that. But I do know that I bought the land and paid for it. As to whether or not we made \$150,000 above that \$42,000 or not, I just frankly don't know.

Mr. SELLS. Well, does it sound right to you? I don't know anything about your business transactions or your business, Mr. Bowen, but I would think this, that if I had turned \$100,000 or \$150,000 on a particular project or a particular enterprise, I would think I would have some recollection as to how much I made off of that deal.

Mr. BOWEN. I do have some recollection. As Mr. Oliver said, at that time I was pretty well covered up with activities. I know when I got through paying taxes, there wasn't much left. I know that. But, frankly, I would just have to get my auditor to tell me.

Mr. SELLS. Are you pretty sure you made \$100,000?

Mr. BOWEN. Am I pretty sure we made \$100,000?

Mr. SELLS. Yes.

Mr. BOWEN. We sold the stock for \$150,000.

Mr. SELLS. I come back to where I was a few minutes ago. Assuming \$150,000 was all you ever got, and giving you credit for an original investment of \$42,000 of yours and Mr. Sundry's money, you made something over \$100,000?

Mr. BOWEN. That is right.

Mr. SELLS. And Mr. Oliver says he thinks you actually netted more than that.

Mr. OLIVER. I could be wrong.

Mr. BOWEN. I don't think so.

Mr. SELLS. Then we're back to where we were a few minutes ago. My original figure was that you made something like \$108,000 off of this particular deal, over and above what you invested out of your pockets.

Mr. BOWEN. I would say we made that. I would say "Yes."

Mr. SELLS. Was that \$100,000 divided between you and Mr. Sundry in accordance with your stockholding?

Mr. BOWEN. That is right.

Mr. SELLS. In other words, you got two-thirds of it?

Mr. BOWEN. I held two-thirds of it.

Mr. SELLS. And Mr. Sundry—

Mr. BOWEN. He held a third of it.

Mr. SELLS. Did you or Mr. Sundry have any interest, financial or otherwise, in the Byck-Worrell Construction Co.?

Mr. BOWEN. No.

Mr. SELLS. You have no interest in that company whatsoever?

Mr. BOWEN. Never have had.

Mr. SELLS. After you sold all your stock in Nelson Apartments, Inc., did you retain any interest, financial or otherwise, in either Byck-Worrell or in the Nelson Apartments?

Mr. BOWEN. No.

Mr. SELLS. In other words, you completely divorced yourself of all—

Mr. BOWEN. Completely divorced.

Mr. SELLS. Now, is this a fair statement, and believe me, Mr. Bowen, if it is not a fair statement or if Mr. Oliver thinks it is not a fair statement, I invite you to correct me. As I view this thing at this moment, you and Mr. Sundry made \$100,000 during a period of about 1 year, in which your services to this project consisted of purchasing the land, setting up the corporation, acquiring a mortgage commitment. Isn't that about all you did, Mr. Bowen?

Mr. BOWEN. Mr. Sells, that is a lot.

Mr. SELLS. As I said, you use your terms.

Mr. BOWEN. Have you ever set up one of these things?

Mr. SELLS. No; I haven't.

Mr. BOWEN. Of course you are familiar with them.

Mr. SELLS. I know a little something about them.

Mr. OLIVER. He found the mortgage money and he did those things that you mentioned, plus the negotiations with the architect for the drawing of the plans, and the trip to Springfield, Ill., I believe, for

the Franklin Life Insurance Co., and went over the plans and specifications, and it took about a year.

Mr. BOWEN. Mr. Sells, I am an older man—do we have to put this in here?

Mr. SELLS. Do you want to say something off the record?

Mr. BOWEN. Yes.

(Discussion off the record.)

Mr. SELLS. Back on the record.

I will ask a couple of other questions and maybe we can wind this up. Mr. Bowen, do you know what it actually cost Byck-Worrell to construct the project?

Mr. BOWEN. I do not; no. Now, Mr. Oliver might know.

Mr. OLIVER. You asked me, you remember, the other day.

Mr. SELLS. I asked you that before, Mr. Oliver; yes.

Mr. OLIVER. What I did, I got a certified public accountant to go through the records of Nelson Apartments, and if it will help you at all, I will simply read this into the record.

Mr. SELLS. I would like you to.

Mr. OLIVER. It is a letter from Mr. Donald F. Stewart, certified public accountant, 110 East Bay Street, Savannah, Ga.

The letter is dated October 4, 1954, addressed to Oliver & Davis, attorneys at law, Savannah, Ga. Re Nelson Apartments, Inc.

DEAR MR. OLIVER: In accordance with your request, I have examined the records of Nelson Apartments, Inc. Their records show that Byck-Worrell Construction Co. was paid a total of \$1,100,290.88 for construction of the apartments.

Their records also show on December 27, 1950, a transfer of 1,515 shares of class B stock to Byck-Worrell Construction. Mr. W. A. Bowen's records indicate that the class B stock was sold for \$100 per share to Byck-Worrell Construction Co.

Very truly yours.

Now, we do not have, or Mr. Bowen could hardly get, information as to what Byck-Worrell's costs were.

Mr. BOWEN. I have no way to get that.

Mr. SELLS. Let's do a little figuring here. According to the statement that you just read, Mr. Oliver, if I understand it correctly, this accountant's or auditor's examination of the records indicates that the books show that Byck-Worrell received, in round figures, \$1,100,000 for the cost of construction of the project.

Mr. OLIVER. That is right.

Mr. SELLS. Now, that figure is roughly \$300,000 less than the mortgage commitment of \$1,400,000.

Mr. OLIVER. \$200,000 less than the estimated cost.

Mr. SELLS. That is the next figure I am coming to. It is \$200,000 less than the construction contract or the construction agreement that was originally entered into between Mr. Bowen, Mr. Sundry, and the Byck-Worrell Co.

Now it looks to me—and correct me if I am wrong, Mr. Bowen—it looks to me like almost from the very inception of this thing, it was felt or believed by you and Mr. Sundry and the Byck-Worrell Co., that the project could be built for less than the mortgage commitment. Isn't that correct?

Mr. BOWEN. Will you state that again?

Mr. SELLS. It looks to me like you gentlemen all figured or agreed from the beginning that the project could be built for less than the mortgage commitment.

Mr. BOWEN. Mr. Byck and Mr. Worrell had nothing to do with sponsoring that commitment. Mr. Sundy and I had nothing to do with the Byck-Worrell Construction Co. I mean we were not associated with it.

Mr. OLIVER. Could I make a suggestion?

Mr. SELLS. Yes.

Mr. OLIVER. Bill, why don't you simply read into the record that letter.

Mr. SELLS. I have read the letter, Mr. Oliver.

Stay with me, Mr. Bowen, and please don't look for an opportunity to quarrel with me until I have finished.

Mr. BOWEN. I won't quarrel with you. I couldn't afford to quarrel with you, could I?

Mr. SELLS. Assuming this letter from Mr. Stewart, the certified public accountant, is correct when it states that Byck-Worrell received \$1,100,000 for constructing the project, that left \$300,000 of excess, shall we say, in loan proceeds or mortgage proceeds over and above the actual cost of construction. Are you with me up to that point?

Mr. BOWEN. I am with you.

Mr. SELLS. Now, out of that \$300,000, \$150,000 was available to pay you and Mr. Sundy for your stock.

Mr. BOWEN. I don't know where the \$150,000 came from.

Mr. SELLS. Isn't it reasonable to say that there was at least \$150,000 there with which Byck-Worrell felt it could expend or felt it could use to purchase your stock?

Mr. BOWEN. Mr. Sells, I don't know where the \$150,000 came from. Mr. Byck and Mr. Worrell, according to your figures there, could have built that thing for one price, where somebody else couldn't have built it for that.

Mr. SELLS. Is that the point that I am talking about, Mr. Bowen?

Look, assuming these figures—and Mr. Oliver has given me this letter from Mr. Stewart—assuming the figure of \$1,100,000 as the actual cost of construction, there was \$300,000 difference there between the actual cost of construction and the mortgage, as committed by FHA; isn't that correct?

Mr. BOWEN. I will answer your question, but let me say this: I never knew, until I saw this letter, what the difference was.

Mr. SELLS. I am not saying that you did. I am saying if you agree with these figures or if you accept these figures, you will agree that there appears to have been \$300,000 of excess of mortgage over construction costs; isn't that correct?

Mr. BOWEN. Yes.

Mr. OLIVER. That is right.

Mr. BOWEN. It appears to be that.

Mr. SELLS. In terms that a layman would understand, it appears to me that you and Mr. Sundy received \$150,000, or half of that figure, as the purchase price for your stock.

Mr. BOWEN. We received \$150,000.

Mr. SELLS. You don't know where the proceeds came from?

Mr. BOWEN. No; I do not.

Mr. SELLS. Wouldn't this be a fair inference? Wouldn't it be a fair assumption or inference to say that Byck-Worrell must have known at the time they offered to purchase your stock, that the construction costs were going to be low enough so that they could afford to pay you the \$150,000 for your stock?

Mr. OLIVER. I think that is certainly a fair assumption, but bear in mind that the Byck-Worrell Co. at the same time that they were building this, were building another project of approximately the same size right next door to it, and, therefore, could have effected construction economies.

Mr. SELLS. I agree it could have effected economies, and so forth, but do you agree with me that my assumption is a fair assumption?

Mr. OLIVER. I think the figures speak for themselves.

Mr. SELLS. Assuming that after they purchased your stock, Mr. Bowen, assuming there was still half of that \$300,000 left in Byck-Worrell, do you know whether they, whether Byck-Worrell, ever made any distributions to their own shareholders?

Mr. BOWEN. That I do not know.

Mr. SELLS. That is your statement and your testimony?

Mr. BOWEN. Now state it again, and let me be sure I understand you.

Mr. SELLS. All right. After the project was all completed, do you know whether Byck-Worrell made any distribution to its shareholders, as a result of the construction of this project?

Mr. BOWEN. No. As far as knowing, I do not know, no.

Mr. SELLS. Have you ever heard that they did?

Mr. BOWEN. I wouldn't know whether I had heard—I mean—wait a minute, Mr. Sells. Now I am not taking issue with you, but what Byck-Worrell did, whether they distributed any moneys or not, that I can't answer, because I don't know. I am not familiar with them.

As I repeated before, I have no interest and have never had any whatsoever with Byck-Worrell Construction Co.

Mr. SELLS. O. K. So your testimony is that if there was still money left over, after they finished the project—

Mr. BOWEN. Then I don't know what happened to it.

Mr. SELLS. And after they had purchased their stock, you don't know what happened to it?

Mr. BOWEN. I don't know what happened to it.

Mr. SELLS. All right. That is the point I was trying to get to.

Let me clarify this. This letter from Mr. Stewart I will describe for the record. It is a letter on the letterhead of Donald F. Stewart, certified public accountant, 110 East Bay Street, Savannah, Ga., dated October 4, 1954, addressed to Oliver & Davis, attorneys at law, in re Nelson Apartments, Inc., Savannah, Ga., in which Mr. Stewart states:

In accordance with your request, I have examined the records of Nelson Apartments, Inc. Their records show that Byck-Worrell Construction Co. was paid a total of \$1,100,299.88 for construction of the apartments.

And it says, "Very truly yours, Donald F. Stewart."

I will return that letter to you, Mr. Oliver.

Mr. OLIVER. Thank you.

Mr. SELLS. Mr. Bowen, are you and Mr. Sundry the only two individuals that ever had any interest in the stock of Nelson Apartments, Inc., prior to the purchase of that stock by Byck-Worrell?

Mr. BOWEN. Mr. Sells, I held two-thirds of the stock and Mr. Sundry held the other third. We got—as I explained to you before,

our work was kind of rubbing on one another, and those people made us their price on the thing for the stock.

Mr. SELLS. Let me ask the question in another way: Mr. Bowen, did any other individual get anything out of the sale of your and Mr. Sundy's stock? Did the proceeds of that sale or any part of the proceeds of that sale go to anyone else?

Mr. BOWEN. Did any—

Mr. SELLS. Did any part of the moneys that you and Mr. Sundy received for the sale of your stock, did any of that money go to anyone else, other than the two of you?

Mr. OLIVER. You had to pay the attorney fees, for example. You paid me some of it.

Mr. SELLS. For services; yes; to you, Mr. Oliver. Anyone else?

Mr. BOWEN. I repeat, I held two-thirds of the stock, and Mr. Sundy, one-third.

Mr. SELLS. That isn't answering my question, Mr. Bowen.

Mr. BOWEN. What is your question, again?

Mr. SELLS. Did anyone get any of those proceeds—did anyone else share in the proceeds of that sale?

Mr. BOWEN. Nobody but the stockholders; no, sir.

Mr. SELLS. Were you and Mr. Sundy—

Mr. BOWEN. Mr. Sundy and I were the stockholders.

Mr. SELLS. Did you hold any part of the stock, any part of the two-thirds interest in the stock you held, for anyone else?

Mr. BOWEN. May I talk to my attorney?

Mr. SELLS. You may.

Mr. OLIVER. Excuse us just a minute.

Mr. SELLS. Surely.

(A short recess was taken.)

Mr. BOWEN. Now what is your question again, Mr. Sells?

Mr. SELLS. Well, I have asked you the question in about three different forms. Which way do you want me to repeat the question?

Mr. BOWEN. In any way you would like.

Mr. SELLS. You held two-thirds of the stock, but did you hold that stock or any part of that stock in behalf of anyone else?

Mr. BOWEN. I held some of the stock as nominee.

Mr. SELLS. For whom?

Mr. BOWEN. P. H. Preston.

Mr. SELLS. Is that Congressman Preston?

Mr. BOWEN. Yes.

Mr. SELLS. How much?

Mr. BOWEN. Thirty-three and one-third percent.

Mr. SELLS. In other words, Congressman Preston was a one-third owner of this project; is that right?

Mr. BOWEN. I held one-third of the stock.

Mr. SELLS. As his nominee?

Mr. BOWEN. Yes.

Mr. SELLS. Did he receive one-third of the proceeds of the sale of the stock?

Mr. BOWEN. Yes.

Mr. SELLS. So he received roughly \$50,000; is that right?

Mr. BOWEN. That is right.

Mr. SELLS. Had he been in the project as a stockholder from the inception of the project?

Mr. BOWEN. Yes.

Mr. SELLS. Was he one of the individuals that helped set it up?

Mr. BOWEN. No.

Mr. SELLS. What part did he take in it, if any?

Mr. BOWEN. He just put his money in it.

Mr. SELLS. Do you know how much money Congressman Preston put in himself?

Mr. OLIVER. He put in one-third.

Mr. SELLS. That would be one-third of the purchase price of the land. Did he contribute to the purchase price of the land, too?

Mr. OLIVER. He put one-third of whatever was put in. He bought and paid for his stock. He had a cash investment exactly equal to Mr. Sundry and Mr. Bowen.

Mr. SELLS. Assuming our total figure that we arrived at a moment ago is correct, of \$42,000, as being the total equity or the total capital investment in the project, your statement is that Congressman Preston contributed a third of that, roughly?

Mr. BOWEN. To the best of my knowledge, that is right.

Mr. SELLS. Well, that would be about \$13,000. One-third of \$42,000 would be about \$13,000, is that correct, Mr. Oliver?

Mr. OLIVER. About that.

Mr. SELLS. All right. Mr. Bowen, did Congressman Preston have any part in the financial or business organization of this project, the setting up of the corporation?

Mr. OLIVER. He did not.

Mr. SELLS. Is that your answer, Mr. Bowen, that he did not?

Mr. BOWEN. He did not.

Mr. SELLS. Did he have any part in the securing of the FHA commitment?

Mr. BOWEN. No.

Mr. SELLS. Do you know whether or not Congressman Preston ever contacted or talked to any FHA official about this project?

Mr. BOWEN. I do not know.

Mr. SELLS. Do you know that he did not?

Mr. BOWEN. No.

Mr. SELLS. Do you know whether he did?

Mr. BOWEN. No.

Mr. SELLS. In other words, you cannot say, one way or the other, whether he did or did not; is that true?

Mr. BOWEN. That is true.

Mr. SELLS. Are you related to Congressman Preston?

Mr. BOWEN. No.

Mr. SELLS. No relationship to him whatsoever?

Mr. BOWEN. No.

Mr. SELLS. By marriage or by blood?

Mr. BOWEN. No relation.

Mr. SELLS. May I ask this: How did Congressman Preston happen to become involved in this project? Is he a friend of yours?

Mr. BOWEN. Yes.

Mr. SELLS. Personal friend?

Mr. BOWEN. Yes.

Mr. SELLS. Of long standing?

Mr. BOWEN. Of long standing; yes. Life.

Mr. SELLS. Have you ever had any business dealings with him before?

Mr. BOWEN. Oh, yes. Yes.

Mr. SELLS. In what? In the construction business?

Mr. BOWEN. No.

Mr. SELLS. Would you mind telling me generally. I am not interested necessarily specifically.

Mr. BOWEN. At one time he was my attorney. I have a furniture business. I have done business in furniture.

Mr. SELLS. He represented you as attorney at one time?

Mr. BOWEN. Yes; many years ago.

Mr. SELLS. You are sure it wasn't Congressman Preston's idea to start this project?

Mr. BOWEN. Oh, I am positive of that.

Mr. SELLS. Was it your idea?

Mr. BOWEN. It was Mr. Sundy's and my idea.

Mr. SELLS. Is Mr. Sundy related to Mr. Preston?

Mr. BOWEN. Not that I know of, no. I know he is not.

Mr. SELLS. Has he done business with Mr. Preston before?

Mr. BOWEN. I don't know.

Mr. SELLS. Let me ask this question, Mr. Bowen, and if Mr. Oliver thinks it is not a fair question I won't object to it: Was there any particular reason why Congressman Preston chose to stay in the background in this thing and have his stock held by you, as nominee.

Mr. OLIVER. I doubt that this witness could testify as to what—

Mr. SELLS. I assumed you might have some objection to that, but I am interested only in this witness' knowledge, if he has any, Mr. Oliver.

Was there any particular reason that you know of why Congressman Preston wanted his interest held by you as a nominee for him?

Mr. BOWEN. I would rather let Mr. Preston answer that question, Mr. Sells.

Mr. SELLS. You would rather let him answer that. Do you know of any reason that you would care to tell me?

Mr. BOWEN. No.

Mr. SELLS. How many units are there in this particular project, Mr. Bowen?

Mr. BOWEN. Two hundred and twenty.

Mr. SELLS. Two hundred and twenty rental units; is that right?

Mr. BOWEN. Yes.

Mr. SELLS. Is it a profitable project?

Mr. BOWEN. They tell me it is 100 percent occupied and has been.

Mr. SELLS. Do you know whether Congressman Preston has any interest in Byck-Worrell?

Mr. BOWEN. I couldn't swear, but I know that he does not. I mean in my own mind.

Mr. SELLS. In other words, your answer would be, I take it, that the only thing that Congressman Preston received from this project was approximately \$50,000, representing the proceeds of the sale of all of the stock of the project; is that right?

Mr. BOWEN. That is right.

Mr. OLIVER. The same thing you received.

Mr. BOWEN. The same thing I received.

Mr. SELLS. And the same thing Mr. Sundy received?

Mr. BOWEN. Yes.

Mr. SELLS. Mr. Bowen, who handled the paperwork for the details that were necessary to prepare these applications for the FHA mortgage?

Mr. BOWEN. I handled part of them, and Mr. Gurley.

Mr. SELLS. Who is he?

Mr. BOWEN. Mr. Gurley was an insurance agent in Savannah.

Mr. SELLS. He had experience in handling this type of project?

Mr. BOWEN. He was in the mortgage-loan business at that time. He is no longer there.

Mr. SELLS. Did you during the organizational stage of this project, or at any other time, ever personally talk to any FHA official in connection with this project?

Mr. BOWEN. Sure.

Mr. SELLS. Who?

Mr. BOWEN. Your question was, Did I talk to anybody during the——

Mr. SELLS. During the time that you were in the project.

Mr. BOWEN. I had to talk to somebody to get permission to file an application for a 608.

Mr. SELLS. Who did you talk to?

Mr. BOWEN. I talked to the State director.

Mr. SELLS. Who was that?

Mr. BOWEN. That was Mr. R. E. Mathewson.

Mr. SELLS. Where is he located?

Mr. BOWEN. In Savannah. He is deceased.

Mr. SELLS. He is deceased now?

Mr. BOWEN. Yes.

Mr. SELLS. Did you ever talk to Clyde Powell?

Mr. BOWEN. No, sir; I don't know Clyde Powell.

Mr. SELLS. You certainly know who he is; do you not?

Mr. BOWEN. By the papers; yes.

Mr. SELLS. You have heard of Mr. Powell?

Mr. BOWEN. That is right.

Mr. SELLS. And I take it you do not know him personally?

Mr. BOWEN. I do not. I have never seen him.

Mr. SELLS. Did you ever talk to him personally or correspond with him personally?

Mr. BOWEN. No, sir.

Mr. SELLS. Did anyone else, so far as you know, who had any connection with this project, ever deal or talk or correspond with Mr. Powell personally?

Mr. BOWEN. No.

Mr. SELLS. Not so far as you know?

Mr. BOWEN. Not so far as I know. Mr. Sells, there was a need for these things in Savannah, Ga. We were overlooking that.

Mr. SELLS. Let me say this off the record.

(Discussion off the record.)

Mr. SELLS. On the record. Mr. Bowen, do you know whether Congressman Preston exercised or used any influence whatsoever in getting this project approved by FHA?

Mr. BOWEN. He did not.

Mr. SELLS. And you can state——

Mr. BOWEN. He did not, to my knowledge, and I think I would have known it had he did.

Mr. SELLS. Mr. Bush, do you have any other questions that you can think of?

Mr. BUSH. No.

Mr. SELLS. Mr. Bowen, is there anything else you think we should know about this project, or any other project? Let me ask this question: Have you had any interests in any other 608 projects?

Mr. BOWEN. Oh, yes.

Mr. SELLS. Would you mind telling me which ones?

Mr. BOWEN. Franklin Apartments.

Mr. SELLS. Franklin Apartments?

Mr. BOWEN. Yes.

Mr. SELLS. Was that a situation similar to this one, in that you sold your interest out on the project?

Mr. BOWEN. No. I built Franklin.

Mr. SELLS. You still have it?

Mr. BOWEN. Yes, sir. And I'll tell you, I wish I had Nelson.

Mr. SELLS. Where is it located?

Mr. BOWEN. In Savannah.

Mr. SELLS. You still have an interest?

Mr. BOWEN. Yes; I still own it.

Mr. SELLS. Do you have any associates?

Mr. BOWEN. No.

Mr. SELLS. That was your project?

Mr. BOWEN. That is right. Now, Mr. Sundry and I did Franklin Apartments. There was Franklin 1 and Franklin 2. One of them has 80 units and one of them has 70, so there is 150 units. I own Franklin 1 and Mr. Sundry owns Franklin 2, and nobody else is interested in it.

Mr. SELLS. Let me ask just a general question. Were the costs of construction of Franklin Apartments more or less than the amount of the mortgage?

Mr. BOWEN. The cost of construction was a very little bit less.

Mr. SELLS. By a very little bit, do you mean \$100,000 or \$50,000?

Mr. BOWEN. Oh, no. I think—this is purely from memory—I think that on 150 units it was approximately \$40,000.

Mr. SELLS. Overall?

Mr. BOWEN. Overall.

Mr. SELLS. Now, unless you gentlemen, either one of you, has something else you particularly want to put in the record, I think I have asked all the questions that I wanted to ask. Maybe Mr. Bush has something to say.

Mr. BUSH. No; I don't.

Mr. OLIVER. I don't think so.

Mr. BOWEN. I don't have anything.

Mr. SELLS. I have to ask you this, gentlemen, because Mr. Simon so instructed me this morning. Now we can do 1 of 2 things: we can accept your statement or I can serve a subpoena on you. I will have to ask you to be here Thursday morning at 10 o'clock in the Senate Office Building. Now, as I say, I can accept your promise here, to be here, if you make that promise in the record, or I can serve a subpoena on you.

Mr. OLIVER. On Thursday. What is Thursday?

Mr. SELLS. Thursday is the 7th.

Mr. BOWEN. Well, if I have to be here, I will be here, Mr. Sells.

Mr. SELLS. I would prefer to accept your promise rather than go to the trouble and formality of serving a subpoena.

Mr. BOWEN. I would hate to stay here. I have work that needs to be done.

Mr. SELLS. You understand that I am acting under instructions in that regard.

Mr. BOWEN. I will have to be here, that is all.

Mr. SELLS. There is certainly no secret about it. The reason you are being asked to come here is that the committee may wish to ask you some questions at a public session. The committee is conducting public sessions all this week, and I have been instructed to assure that you are here Thursday morning at 10 o'clock, in the Senate Office Building.

Now, it will be at 1 of 2 places. You can note this if you want to, Mr. Oliver. It will either be in the Senate caucus room, which I believe is 318, on the third floor, or in room 301, which is the hearing room for the Senate Banking and Currency Committee. They are just down the hall from each other.

So, if you will report to both rooms on Thursday morning at 10 o'clock, I will have your assurance, Mr. Bowen, that you will be there?

Mr. BOWEN. Yes.

Mr. OLIVER. That is on October 9?

Mr. SELLS. October 7 is Thursday.

All right, gentlemen, I have no further questions. Thank you.

Mr. OLIVER. Thank you very much, Mr. Sells.

(Whereupon, at 10:05 a. m., hearing in the above-entitled matter was concluded.)

The CHAIRMAN. Our next witness will be Mr. Charles Knott, of Baltimore.

Mr. Knott, please.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

### TESTIMONY OF CHARLES KNOTT, CHESAPEAKE GARDENS, ABERDEEN, MD.

Mr. KNOTT. I do.

The CHAIRMAN. Will you please be seated. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Knott, will you give the reporter your name and address, please?

Mr. KNOTT. Charles Knott, Baltimore, Md.

Mr. SIMON. What is your street address, please?

Mr. KNOTT. 2456 Greenmount.

Mr. SIMON. Mr. Knott, are you associated with either your brothers or your father in the building business?

Mr. KNOTT. Yes, sir.

Mr. SIMON. Who are the members of your family associated with you?

Mr. KNOTT. My brothers, Martin and John.

Mr. SIMON. Is there a Henry Knott in your family?

Mr. KNOTT. A brother.

Mr. SIMON. He is a brother?

Mr. KNOTT. Yes.

Mr. SIMON. Is he associated with you?

Mr. KNOTT. No, sir.

Mr. SIMON. Is that a separate branch of the family?

Mr. KNOTT. Separate entirely.

Mr. SIMON. And you have no dealings with him at all?

Mr. KNOTT. No, sir.

Mr. SIMON. Are you familiar with the telephone number in Baltimore, BEL-2638?

Mr. KNOTT. Am I familiar with it?

Mr. SIMON. Yes.

Mr. KNOTT. That is my brother's phone number.

Mr. SIMON. What does "BEL" stand for?

Mr. KNOTT. Belmont.

Mr. SIMON. And Belmont 2638 is your brother's telephone number?

Mr. KNOTT. Yes.

Mr. SIMON. Which brother?

Mr. KNOTT. Henry.

Mr. SIMON. Your brother Henry. He is not a partner of your building operation?

Mr. KNOTT. No.

Mr. SIMON. We have a number of long-distance telephone calls from Clyde Powell's apartment to Belmont 2638. Do you know what they could have been about?

Mr. KNOTT. No, sir; I have no idea.

Mr. SIMON. No idea?

Mr. KNOTT. No.

The CHAIRMAN. It is not your telephone number, but your brother Henry's telephone number?

Mr. KNOTT. That's right and he is not associated with me in any way.

Mr. SIMON. And you don't know what he and Mr. Powell were talking about?

Mr. KNOTT. I have no idea.

Mr. SIMON. And your brothers built Chesapeake Gardens, Inc., project?

Mr. KNOTT. That's right.

Mr. SIMON. That is near Aberdeen Proving Grounds, Aberdeen, Md.?

Mr. KNOTT. Yes.

Mr. SIMON. A Wherry Act project of 600 units.

Mr. KNOTT. 796.

Mr. SIMON. What is the name of the company that sponsored the construction of the project?

Mr. KNOTT. Chesapeake Gardens, Inc.

Mr. SIMON. Nos. 1, 2, and 3?

Mr. KNOTT. That's right.

Mr. SIMON. What was the capital stock of each of those companies?

Mr. KNOTT. \$9,000.

Mr. SIMON. \$9,000 for each?

Mr. KNOTT. Nos. 1 and 3 are consolidated and No. 2 is a separate entity.

Mr. SIMON. Is it \$9,000 in each?

Mr. KNOTT. Yes.

Mr. SIMON. What was the amount of the mortgage in Chesapeake No. 1?

Mr. KNOTT. \$3,256,000.

Mr. SIMON. \$200?

Mr. KNOTT. \$200.

Mr. SIMON. And No. 2?

Mr. KNOTT. It was \$1,587,600.

Mr. SIMON. And No. 3?

Mr. KNOTT. \$1,588,800.

Mr. SIMON. That is a total of \$6,432,600; is that correct?

Mr. KNOTT. That's right, sir.

Mr. SIMON. Who built these buildings?

Mr. KNOTT. Garden Construction.

Mr. SIMON. Who are the stockholders?

Mr. KNOTT. The same three, sir.

Mr. SIMON. You and your two brothers?

Mr. KNOTT. That's correct.

Mr. SIMON. You owned the building company and the construction company?

Mr. KNOTT. That's correct.

Mr. SIMON. What was the cost of construction of Chesapeake No. 1?

Mr. KNOTT. No. 1 was \$2,794,616; No. 2 was \$1,332,484, and 3 was \$1,242,431.39.

I would like to straighten the record out on that. That made a total of \$1,056,000. There is \$100,000 due off of there for consolidation which reduced it to \$958,000.

Mr. SIMON. You are way ahead of me. The last question is, The cost of construction and if I understand it correctly, the three figures you gave for cost total \$5,374,316.83; is that right?

Mr. KNOTT. Minus the \$100,000.

Mr. SIMON. What is the \$100,000?

Mr. KNOTT. That represents payroll, taxes, and various deductions that were not included in that.

Mr. SIMON. Then the difference between the construction cost as you initially gave it and the mortgage is \$1,056,283.17, and if you deduct this round figure of \$100,000, which you, I gather, estimate should come off there, the net difference between the cost and the FHA mortgages would be \$958,283.17.

Mr. KNOTT. One is gross and the other is net.

Mr. SIMON. Roughly, either \$950,800, or a million fifty-eight thousand, depending on the figure you take?

Mr. KNOTT. Yes.

Mr. SIMON. Thank you very much.

The CHAIRMAN. Any questions?

Mr. KENNEY. Yes, sir, I have 1 or 2.

Did you obtain these contracts by competitive bid?

Mr. KNOTT. No, sir, we obtained the contract from Fleet Walker & Associates in Detroit who had the lease from the military and we contacted Fleet Walker and Mr. Walker came out from Detroit and we negotiated a contract with them.

Mr. KENNEY. Have these properties been operating successfully?

Mr. KNOTT. No, sir. At the present time we have sustained about \$258,668 operating loss so far.

Mr. SIMON. Is that before or after depreciation?

Mr. KNOTT. That is after depreciation.

Mr. SIMON. So it is not a cash loss but a bookkeeping loss.

Mr. KNOTT. That's right, but we don't have the depreciation capital to take care of replacement reserves that will be needed in the future.

Mr. KENNEY. That results in an annual loss of about how much?

Mr. KNOTT. The 1951 loss was \$162,097.24; 1952 was \$104,424.89. These were 1 and 3. And 1953 is \$73,279.23, and 1954 is \$90,115.21, making a total of \$429,917.57, and in 1952 and 1953 and 1954, a combined loss on No. 2 of \$95,751.39, making a total combination of the 2 projects of \$525,668.96.

Mr. KENNEY. What are the future prospects?

Mr. KNOTT. We have a turnover up there every 6 months.

Mr. KENNEDY. Why has this not rented up as contemplated originally?

Mr. KNOTT. Because it is a school, there, and the students are in and out of there and there are no long-term leases as originally expected.

Mr. KENNEY. Do you expect to continue to pay this annual loss?

Mr. KNOTT. We can stand it for a while, but how long it will be depends upon the occupancy because we have had anywhere from 8 to 10 percent vacancy, at times.

Mr. KENNEY. Is this loss due to competition from other Wherry house projects?

Mr. KNOTT. Partially, and some overbuilding of title IX's, in the Aberdeen area.

Mr. SIMON. Would you say that it was a mistake for FHA to have authorized the construction of the project?

Mr. KNOTT. I don't think they had anything to say. It was the certificate of need from the military.

Mr. SIMON. Would you say it was a mistake for the military to have issued the certificate of need?

Mr. KNOTT. Well, unfortunately, at the same time the military initiated a need for the additional 398 units and Public Housing made a survey at the same time and issued 400 title IX's, and it is a duplication.

Mr. SIMON. At any rate, the Government financed too much housing that wasn't needed in the area.

Mr. KNOTT. That's correct.

Mr. SIMON. But the only one who will lose will be the Government?

Mr. KNOTT. I guess it might be put that way.

The CHAIRMAN. Thank you very much.

Now, our next witness will be Mr. Sylvester J. Lowery, of Philadelphia, I believe. Mr. Lowery, do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF SYLVESTER J. LOWERY, WARWICK APARTMENTS, ATLANTIC, N. J.

Mr. LOWERY. I do.

The CHAIRMAN. Will you please be seated and give your full name and address to the reporter for the record?

Mr. LOWERY. Sylvester J. Lowery, 1722 Walnut Street, Philadelphia.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Lowery, are you one of the owners of the Warwick Apartments in Atlantic City?

Mr. LOWERY. No; I am not.

Mr. SIMON. Are you connected with it?

Mr. LOWERY. I was connected with it.

Mr. SIMON. You are one of the builders; is that right?

You are one of the sponsors who built the project?

Mr. LOWERY. That is correct.

Mr. SIMON. When was it built?

Mr. LOWERY. I believe, from March of 1950, to about July 1951.

Mr. SIMON. What was the amount of the FHA mortgage on the property?

Mr. LOWERY. The original commitment was \$2,424,000.

Mr. SIMON. Is that increased to \$2,503,000?

Mr. LOWERY. No; it was approved in that amount, but finally increased, due to an agreement with the permanent mortgagee, to \$2,489,900.

Mr. SIMON. Where is this project located?

Mr. LOWERY. Atlantic City, N. J.

Mr. SIMON. On the ocean?

Mr. LOWERY. Yes.

Mr. SIMON. Does it have a swimming pool?

Mr. LOWERY. Yes.

Mr. SIMON. Does it have cabanas?

Mr. LOWERY. Yes.

Mr. SIMON. Were tenants required to rent a cabana, or make arrangement to use the swimming pool as a condition to renting the apartment?

Mr. LOWERY. I would say to my knowledge, no, but I haven't been connected with the project for—

Mr. SIMON. When the project first opened up were there any tenants in the building who didn't rent the use of the swimming pool in connection with renting the apartments?

Mr. LOWERY. I believe there were; yes.

Mr. SIMON. How many?

Mr. LOWERY. I will have to do a little mathematical calculating. There were 280 apartments. I am assuming there are 3 people to each apartment, which is about 840. I think about three or four hundred people belonged to the—from three to five or six hundred people belonged, originally.

Mr. SIMON. Did you say to us that it was not required to rent one of these cabanas, or pay a fee for the use of the swimming pool, to get an apartment there?

Mr. LOWERY. It was not required.

Mr. SIMON. You are absolutely certain of that?

Mr. LOWERY. I am absolutely certain.

Mr. SIMON. Are the tenants who say to the contrary wrong?

Mr. LOWERY. From what date on do they say that?

Mr. SIMON. From the very beginning.

Let me ask you this: Would it be true at any time?

Mr. LOWERY. Let me say that I could only answer up to a point.

Mr. SIMON. When did you sell?

Mr. LOWERY. February 1952, I believe.

Mr. SIMON. Well up until February 1952, is it wrong, if any tenant says that they were required to pay for the use of the swimming pool in order to get an apartment?

Mr. LOWERY. To the best of my knowledge, I would say yes. I had very little to do with the renting of the project.

Mr. SIMON. Wouldn't you know if that hadn't been the fact?

Mr. LOWERY. Would you repeat that, please?

Mr. SIMON. Wouldn't you know if the tenants had been required to pay for swimming-pool privileges?

Mr. LOWERY. I would say they weren't required to pay for swimming-pool privileges, up to the time I left.

Mr. SIMON. At any rate, the costs of the project include the cost of the swimming pool and the cost of the cabanas; is that right?

Mr. LOWERY. Yes.

Mr. SIMON. You filed your application at the FHA Office in Philadelphia; is that right?

Mr. LOWERY. No, Camden.

Mr. SIMON. Camden, N. J. Excuse me.

And was there a man named Hunter, who was the district director of the FHA Office in Camden?

Mr. LOWERY. I believe he was director, at that time.

Mr. SIMON. Do you remember his first name?

Mr. LOWERY. Kay.

Mr. SIMON. On November 8, 1949, did Mr. Hunter write a letter rejecting your application for the Warwick Apartments?

Mr. LOWERY. Yes.

Mr. SIMON. He did? He rejected it?

Mr. LOWERY. Yes.

Mr. SIMON. And after he rejected the project, did you and Mr. Frankel, and Mr. Massey come down here to Washington and have a conference with Clyde Powell?

Mr. LOWERY. Yes, with Mr. Hunter's approval.

Mr. SIMON. He couldn't very well disapprove your going down to see his boss, could he?

Mr. LOWERY. Just a matter of courtesy, that is all.

Mr. SIMON. What was the date upon which you came to see Mr. Powell?

Mr. LOWERY. I believe it would be around the 10th of November.

Mr. SIMON. And on the 28th of November, did Mr. Hunter write a second letter approving the project?

Mr. LOWERY. Approving the project? Yes.

Mr. SIMON. Within 20 days of his rejection, he reversed himself and approved it?

Mr. LOWERY. Yes.

His objection was based upon insufficient reasons so far as we were concerned.

Mr. SIMON. At any rate in that intervening 20-day period when he reversed himself, you and Mr. Frankel, who was your partner, and Mr. Massey, who was the vice president of the Peoples Bank & Mortgage Co., came down here and saw Clyde Powell and got Mr. Hunter to reverse himself, is that right?

Mr. LOWERY. No, not just that. We saw Mr. Clyde Powell, yes, and presented the facts in a letter dated, I believe, November 11.

signed by Mr. Massey, the reasons for the project, and those facts I believe, had some reason on the adjustment of thinking of FHA to the final conclusion that they made.

Mr. SIMON. And Mr. Powell told Mr. Hunter to reverse himself. is that right?

Mr. LOWERY. The decision I don't believe was made by Mr. Hunter.

Mr. SIMON. You say it was not made by him?

Mr. LOWERY. I don't think so.

Mr. SIMON. It was made by Mr. Powell, wasn't it?

Mr. LOWERY. I don't know who it was made by. I believe it was his own director.

Mr. SIMON. At any rate you saw Powell and Hunter was told to reverse himself, is that right?

Mr. LOWERY. I received a letter from Mr. Hunter, or rather Peoples Bond & Mortgage Co. received a letter from Mr. Hunter, revising the letter of November 8. I don't know who told them.

Mr. SIMON. Is this what happened:

On the 8th of November, Hunter rejected the application. You went down and saw Mr. Powell and somebody told Hunter to reverse himself, and he, on the 28th, wrote you a letter approving the application?

Mr. LOWERY. I corrected you before when you said "told Hunter to reverse himself." Actually I think Hunter was acting as an instrument of the Washington office of the FHA and he was not reversing himself.

Hunter wanted the commitment, I believe.

Mr. SIMON. Hunter first wrote the letter rejecting it?

You saw Powell, Hunter wrote a letter approving it; is that right?

Mr. LOWERY. Yes.

Mr. SIMON. Now what if any payment did Mr. Powell get for his services?

Mr. LOWERY. No payment.

Mr. SIMON. Are you certain of that?

Mr. LOWERY. Positive.

Mr. SIMON. The bank deposits of Mr. Powell at the Riggs National Bank show that on November 16, he deposited \$4,800 in cash. November 16, 1949.

And on November 22, 1949, he deposited \$6,500 in cash, and on November 28, which is 6 days after the second deposit, and 12 days after the first deposit, you got your letter of approval.

Is there any connection between either of those deposits and your letter of approval?

Mr. LOWERY. Absolutely none at all.

Mr. SIMON. Why was Mr. Powell so generous to you people when you came down and saw him?

Mr. LOWERY. He was just, not generous.

Mr. SIMON. He approved the project. Did the plans show it was going to have a swimming pool and cabanas?

Mr. LOWERY. At that time, no. It showed that it was going to have stores and restaurants, but not swimming pool and cabanas; no.

Mr. SIMON. They were later added, were they?

Mr. LOWERY. Yes, by a change order.

Mr. SIMON. Who approved the change order adding the swimming pools and cabanas?

Mr. LOWERY. The usual procedure, which was followed in this case, was to submit the change order to the mortgagee, who in turn submitted it to the FHA, both approving it.

Mr. SIMON. Now, don't you have a large number of tenants who really are resort tenants?

Mr. LOWERY. I have to ask you for what period of time do you mean that?

Mr. SIMON. Well, aren't there a large number of tenants who live in the building but who only occupy the apartments—who rent the apartments, but only occupy them during the resort season?

Mr. LOWERY. I couldn't answer after February 1952.

Mr. SIMON. Well, prior to February 1952.

Mr. LOWERY. This was under section 608 which, as you know, gave priority to veterans.

Mr. SIMON. Yes, and as I understand it, Mr. Frankel has testified that there were only 25 veterans who have moved into the project.

Mr. LOWERY. Of course that would be out of your control.

Mr. SIMON. You were with Mr. Frankel, on September 30 when he testified here in executive session?

Mr. LOWERY. Yes.

Mr. SIMON. And didn't you hear him, when he said there were only 25 veterans who occupied the apartments?

Mr. LOWERY. Yes; but I believe when you apply for FHA insurance in your application, you sign a statement that you will offer it for veterans priority for 30 days after the completion of the project, which can be proved by advertisements and the postings of signs around the project for that period.

Mr. SIMON. And isn't it also true that Mr. Frankel, on September 30—I don't mean to be putting words in his mouth, but didn't he dispute that a number of these tenants occupied the apartments only during the resort season?

Mr. LOWERY. I believe Mr. Frankel testified there were no transient accommodations.

Mr. SIMON. I know there are no transient accommodations but isn't it true that a substantial number of people who rent the apartment by the year, use it only during the resort season?

Mr. LOWERY. I believe that is the way he testified; yes.

Mr. SIMON. And that is true, isn't it?

Mr. LOWERY. I don't know, after February 1952. I really don't.

Mr. SIMON. Well, it was true prior to February 1952, wasn't it?

Mr. LOWERY. Not to a great extent, I believe the Atlantic City residents were also offered preference together with veterans and I believe it has a large percentage of Atlantic City residents.

I believe about 60.

Mr. SIMON. Now, you sold your stock to Morris Hassel, of Reading, Pa.?

Mr. LOWERY. No; I did not.

Mr. SIMON. To whom did you sell your stock?

Mr. LOWERY. You are referring to which stock?

Mr. SIMON. Your stock in the Warwick Apartments.

Mr. LOWERY. The stock in the construction company that built the project, I sold to the company, itself. I had no stock in the War—if I may identify it, the Warwick Apartments is the name of the

apartments the same as the Mayflower Hotel is the name of the Mayflower Hotel. The owning company was called Rawleigh, Inc., and the construction company was Rawleigh Construction Co.

Mr. SIMON. Didn't Hassel loan the Rawleigh Construction Co. \$317,000, of which \$179,000 was used to purchase your stock and Margolis' stock?

Mr. LOWERY. Yes, sir; that is correct.

Mr. SIMON. So it was at least his money that bought your stock, whether he bought it direct or not?

Mr. LOWERY. Yes; that would be so.

Mr. SIMON. How much had you invested in this stock of the Rawleigh Construction Co.?

Mr. LOWERY. In addition to the capital-stock investment, I had put in around \$60,000 up until the time of closing.

Mr. SIMON. My question was not how much you had loaned the company, which they paid back out of the mortgage, but how much had you paid for the stock that Hassel bought?

Mr. LOWERY. Well, the company—excuse me. The company did not pay back out of the mortgage—if you will check the record, you will find there is a \$260,000 investment—

Mr. SIMON. How much did you pay for the stock you sold to Hassel?

Mr. LOWERY. The actual capital contribution, I believe, was \$400, plus the \$60,000—plus a \$100,000 note I endorsed at a bank.

Mr. SIMON. Was it paid—the note?

Mr. LOWERY. It hasn't been paid as yet; no.

Mr. SIMON. Whose note is it?

Mr. LOWERY. It is the sponsor's note.

Mr. SIMON. Are they good for it?

Mr. LOWERY. I would say so.

Mr. SIMON. Was the \$60,000 repaid?

Mr. LOWERY. Yes. Not out of the proceeds of the mortgage.

Mr. SIMON. But it was repaid?

Mr. LOWERY. Not out of the proceeds of the mortgage.

Mr. SIMON. The only cost of the stock to you is the \$400 you paid for it; is that right?

Mr. LOWERY. I wouldn't attribute it as the only cost; no.

Mr. SIMON. Is the only cost in dollars for the stock, the \$400?

Mr. LOWERY. For the stock certificate; yes.

Mr. SIMON. And you sold the stock certificate for \$150,000; is that right?

Mr. LOWERY. That is right.

The CHAIRMAN. The same stock certificate.

You want to be specific that it was the stock certificate. It was the same stock certificate that you paid \$400 for, but sold for \$150,000?

Mr. LOWERY. It now has a greater value.

The CHAIRMAN. Greater, or less?

Mr. LOWERY. Greater.

The CHAIRMAN. You should have held on longer.

Mr. SIMON. Do you still insist when you came down here and saw Clyde Powell in November 1949 and got him to reverse the decision, that there was no financial consideration for that reversal?

Mr. LOWERY. In the first place, I don't believe he made the decision in the first place.

Mr. SIMON. I don't say he reversed his own decision, but he reversed a decision which had been made.

Hadn't the project been rejected when you went to see Powell?

Mr. LOWERY. Yes. I don't know whether he reversed it or not. Someone in Washington evidently informed Mr. Hunter to inform me, and if you prefer to say Clyde Powell, I have no objection to that.

Mr. SIMON. Did you talk to anybody except Clyde Powell about the project?

Mr. LOWERY. No; but it could have been referred to a lesser light such as a zone director, or regional director, or something like that.

Mr. SIMON. But the only man you talked to between the time it was rejected and the time they reversed themselves was Clyde Powell?

Mr. LOWERY. Yes. For a short time. I believe Mr. Massey carried the ball.

Mr. SIMON. Regardless of who carried the ball, the only man asked to do anything about reversing the decision was Clyde Powell?

Mr. LOWERY. Not reversing the decision, exactly. The text would be reversing the decision. We felt the decision was unjust, the revocation or whatever you call it.

Mr. SIMON. Regardless of whether the initial decision was unjust, you did go down to get it reversed, did you not?

Mr. LOWERY. In effect, yes.

Mr. SIMON. What do you mean by "in effect"?

Mr. LOWERY. We had it reversed; yes.

Mr. SIMON. You had it reversed, and Clyde Powell is the man you saw to get it reversed?

Mr. LOWERY. That's correct.

Mr. SIMON. And you still insist you didn't pay him for that?

Mr. LOWERY. Absolutely. I never saw the man outside of his office in his life.

Mr. SIMON. That wasn't my question, whether you saw him out of his office. My question was whether you paid him anything.

Mr. LOWERY. I never paid him anything.

Mr. SIMON. Did anybody pay him anything for this reversal?

Mr. LOWERY. No.

Mr. SIMON. You say these 2 deposits in his bank account, \$4,800 and \$5,700, are pure coincidences?

Mr. LOWERY. You can call them coincidences. They have nothing to do with me and nothing to do with my project.

Mr. DINKINS. Mr. Lowery, between these two decisions, the first one turning you down and the second approving this project was additional information furnished Mr. Powell?

Mr. LOWERY. Yes, there was.

Mr. SIMON. What was the additional information?

Mr. LOWERY. It was presented in a letter from Peoples Bond & Mortgage Co. to Mr. Powell.

Mr. SIMON. What did the letter say that was not already known to FHA?

Mr. LOWERY. I wouldn't know what the letter said—I wouldn't know what the FHA knew.

Mr. SIMON. You just told Mr. Dinkins additional information was presented after the rejection. Now, what was the additional information?

Mr. LOWERY. Well, I presume furnishing proof of demand and the need for a project of this type in Atlantic City, which we felt had been possibly overlooked when the application was revoked.

Mr. SIMON. Did that information show that this was going to be middle-income housing?

Mr. LOWERY. The application, I believe, was around \$29 a room, which would be somewhere in the middle-income bracket.

Mr. DINKINS. One more question, please: Is there anything unusual about housing in Atlantic City on the waterfront having a cabana and swimming pool?

Mr. LOWERY. I would think that would be rather unusual.

Mr. SIMON. I wasn't indicating that was unusual, but FHA wasn't supposed to finance luxury apartments, even though on Park Avenue there are also luxury apartments.

The CHAIRMAN. Thank you very much.

Our next witness will be Mr. Albert Stark and Harry Bart, if you will, please.

Mr. Bart and Mr. Stark. Does anybody know them?

They are coming in Friday? Did we excuse them until Friday? You are sure of that?

We are making mistakes here.

Then, we will call Mr. James J. Keelty, Jr., of Baltimore.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God!

**TESTIMONY OF JAMES J. KEELTY, JR., RODGERS FORGE  
APARTMENTS, BALTIMORE, MD.**

Mr. KEELTY. I do.

The CHAIRMAN. Give your name and address to the reporter.

Mr. KEELTY. James Keelty, Jr., 5716 York Road, Baltimore, Md.

Mr. SIMON. Are you one of the sponsors of the Rodgers Forge Apartments project?

Mr. KEELTY. Yes.

Mr. SIMON. Where is it located, Mr. Keelty?

Mr. KEELTY. North Baltimore. York Road, between York and Charles Street.

Mr. SIMON. And there are two corporations, are there?

Mr. KEELTY. That is right.

Mr. SIMON. But they were built as one project?

Mr. KEELTY. More or less; yes.

Mr. SIMON. For physical purposes.

Mr. KEELTY. Yes.

Mr. SIMON. How many units are there in the two projects?

Mr. KEELTY. 508.

Mr. SIMON. Those projects were financed by FHA-insured mortgages?

Mr. KEELTY. Yes.

Mr. SIMON. What was the amount of the mortgage on the first corporation?

Mr. KEELTY. \$2,106,000.

Mr. SIMON. And on the second?

Mr. KEELTY. \$2,008,800.

Mr. SIMON. A total of \$4,114,800?

Mr. KEELTY. Yes.

Mr. SIMON. What was the capital stock of the first corporation?

Mr. KEELTY. Approximately \$2,000.

Mr. SIMON. What was the capital stock of the second corporation?

Mr. KEELTY. The same.

Mr. SIMON. As I understand, you and members of your family own 50 percent of the stock, and James and Margaret Doorment own the other 50 percent?

Mr. KEELTY. That is correct.

Mr. SIMON. Who built the projects?

Mr. KEELTY. Rodgers Forge Construction Co.

Mr. SIMON. Who are the stockholders of Rodgers Forge Construction?

Mr. KEELTY. The same.

Mr. SIMON. That also was nominal capitalization?

Mr. KEELTY. I think so.

Mr. SIMON. What was the cost of construction of the first project?

Mr. KEELTY. \$1,603,576.

Mr. SIMON. That does not include the cost of the land?

Mr. KEELTY. That is without the land; yes, sir.

Mr. SIMON. And what did the land cost?

Mr. KEELTY. \$88,100.

Mr. SIMON. That makes a total cost of \$1,691,676.67?

Mr. KEELTY. I think that is correct.

Mr. SIMON. And the difference between that amount which is the total cost and the mortgage on the first section is \$404,323?

Mr. KEELTY. I think that is correct.

Mr. SIMON. What was the cost of the second section?

Mr. KEELTY. \$1,533,820.28.

Mr. SIMON. And that does not include the land?

Mr. KEELTY. No, sir.

Mr. SIMON. What was the cost of the land?

Mr. KEELTY. \$74,907.90.

Mr. SIMON. The total cost including the land, then, was \$1,608,528.18?

Mr. KEELTY. Yes, sir.

Mr. SIMON. And the difference between the total cost and the mortgage, on the second part was \$400,271?

Mr. KEELTY. I think that is right.

Mr. SIMON. And the 2 projects—that is the 2 corporations, the mortgage totaled \$4,114,800, and the costs were less than the amount of the mortgage by \$804,594; is that right?

Mr. KEELTY. I have \$814,595.15.

Mr. SIMON. You have how much?

Mr. KEELTY. \$814,595.15.

Mr. SIMON. \$814,594.15?

Mr. KEELTY. 595.

Mr. SIMON. 595.15. That represents the difference between the total cost and the mortgage.

Mr. KEELTY. That is right.

The CHAIRMAN. This is the first witness, I think, who just told us the facts down to the penny, and I congratulate you.

Mr. SIMON. Were any premiums paid?

Mr. KEELTY. There was a premium paid of \$30,000.

Mr. SIMON. So that would make the total mortgage proceeds \$844,595 in excess of the cost?

Mr. KEELTY. That is about right.

Mr. SIMON. I understand in the list that Mr. McKenna put out, he also listed a place called Hampton Apartments as yours, but your partner, Doorment, did that by himself and you weren't with him in that one, is that right?

Mr. KEELTY. That is right.

The CHAIRMAN. This is the only section 608 that you had?

Mr. KEELTY. That is right.

Mr. SIMON. Thank you.

The CHAIRMAN. Are there any further questions? Any statements?

Thank you very much.

Unless there is objection, we will place in the record at this point, the total section 608 projects, the list of section 608 projects given to us by Mr. Cole's office, on date of June 4, showing the insured mortgage loans in excess of costs.

(The material referred to follows:)

Projects listed alphabetically by States—Sec. 608 FHA-insured mortgage loans in excess of costs on projects reviewed as of June 4, 1954

| Name, project location   | Principals  | Paid-in capital stock | Mortgage loan | Reported cost of project | Windfall <sup>1</sup> | Amount of distribution of windfall <sup>1</sup> |
|--|---|-----------------------|---------------|--------------------------|-----------------------|---|
| Essex House, Birmingham, Ala. (Alabama, 1 project).  | Marvin L. Warner, Joseph Kanter, Birmingham, Ala.....   | \$75,000              | \$1,209,500   | \$1,180,000              | \$29,500              | -----   |
| Holly Park Knolls, Inc., Inglewood, Calif.....   | Samuel Firks, Max Maltzman, W. E. Robertson, Louis A. Towne, Los Angeles, Calif.  | 188,000               | 2,615,000     | 2,453,255                | 161,745               | \$187,000                                       |
| Lincoln Place Nos. 1 through 35, Los Angeles, Calif.   | Philip Yousem, Los Angeles, Calif.; Ray Myers, R. Reese Myers, Lambert Housing Corp., Venice, Calif.  | 255,726               | 5,167,700     | 5,025,400                | 142,300               | 60,700  |
| Baldwin Gardens Co., Los Angeles, Calif.....   | Richard S. Diller, Arthur B. Weber, Irving L. Kalsman, Los Angeles, Calif.  | \$0,600               | 2,866,400     | 2,385,000                | 481,400               | 432,791   |
| Wilshire LaCienega Co., Los Angeles, Calif.....  | Richard S. Diller, Arthur B. Weber, Herman Kranz, Los Angeles, Calif.   | 39,000                | 1,937,600     | 1,675,803                | 261,797               | 281,699   |
| Chesapeake Rodeo Apartments, Inc., Los Angeles, Calif. (California, 5 projects).                       | Herbert Kronish, Sanford S. Shear, Beverly Hills, Calif.; W. B. Robertson, Max Maltzman, Milton Gordon, Los Angeles, Calif.   | 381,100               | 3,047,500     | 2,967,000                | 80,500                | 475,100   |
| Cooper Apartments, Inc., New Haven, Conn. (Connecticut, 1 project).                                    | Jack B. Cooper, Louis Kuklensky, Reubin Kuklensky, Miami Beach, Fla.; Daniel Weinstein, New Haven, Conn.  | 1,000                 | 667,000       | 614,876                  | 52,124                | 68,560  |
| Clifton Park Manor, secs. 1, 2, 3, New Castle, Del. (Delaware, 1 project).                             | Don A. Loftus, George T. Weymouth, Charles R. Martin, Wilmington, Del.  | 7,325                 | 5,980,000     | 5,082,000                | 898,000               | 549,375   |
| Parklands Manor, Inc., Washington, D. C.....   | Morris Cafritz, Edward Cafritz, Charles H. Purcell, Martin Atlas, Washington, D. C.   | 15,155                | 3,563,000     | 3,011,500                | 551,500               | 630,000   |
| Idaho Terrace, Inc., Washington, D. C.....   | Albert Small, David Stern, Washington, D. C.....  | 12,000                | 1,750,000     | 1,495,500                | 254,500               | 121,928   |
| Hilltop House, Inc., Washington, D. C. (District of Columbia, 3 projects).                             | Marvin Willig, Washington, D. C.; Louis Janof, Chevy Chase, Md.; Charles Englebach, Philadelphia, Pa.; Albert P. Dicker, Daniel Gevinson, J. Svestka, Washington, D. C. | 1,000                 | 787,700       | 727,000                  | 60,700                | 13,332  |
| Mayfair Village Corp., Jacksonville, Fla. (Florida, 1 project).  | Joseph A. Burstein, Morris Glazer, Jacksonville, Fla ...  | 35,000                | 554,000       | 539,500                  | 14,500                | -----   |
| Nelson Apartments, Inc., Savannah, Ga.....   | William A. Bowen, James L. Sundry, Sylvan Byck, Rives Worrell, Savannah, Ga.  | 7,500                 | 1,402,000     | 1,176,500                | 225,500               | 250,000   |
| The Darlington Apartments, Atlanta, Ga. (Georgia, 2 projects).   | L. D. Long, Leonard L. Long, Frank G. Etheridge, Atlanta, Ga.   | 283,300               | 4,650,000     | 4,610,878                | 39,122                | -----   |
| Grandview, Inc., Wichita, Kans. (Kansas, 1 project).   | H. M. Beech, M. Mollohan, Wichita, Kans.....  | 10,000                | 231,600       | 137,500                  | 94,100                | -----   |
| Parkchester Apartment Development, New Orleans, La.  | Paul Kapelow, Lewis Leader, Emile Bluestein, New Orleans, La.   | 757,213               | 10,845,600    | 7,368,000                | 3,477,600             | 3,856,001                                       |
| Claiborne Towers, Inc., Governor Claiborne Apartments, Inc., New Orleans, La. (Louisiana, 2 projects). | Shelby Construction Co., New Orleans, Emile L. Bluestein, vice president.   | 350,000               | 9,230,000     | 7,956,500                | 1,273,500             | -----   |
| Gregory Estates Nos. 1, 2, 3, 4, Inc., Seat Pleasant, Md.  | Robert H. Bailey, Farngdale, N. Y.; Robert Greene, Washington, D. C.  | 800                   | 3,184,000     | 3,176,500                | 7,500                 | -----   |

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See footnote at end of table, p. 2584.

Projects listed alphabetically by States—Sec. 608 FHA-insured mortgage loans in excess of costs on projects reviewed as of June 4, 1954—Con.

| Name, project location  | Principals   | Paid-in capital stock | Mortgage loan | Reported cost of project | Windfall <sup>1</sup> | Amount of distribution of windfall <sup>1</sup> |
|---|--|-----------------------|---------------|--------------------------|-----------------------|---|
| Rodgers Forge Apartments, Inc., Nos. 1 and 2; Hampton Apartments, Inc., Baltimore, Md. (Maryland, 2 projects).  | James Keelty, Jr., James Dorment, Joseph Keelty, Louise H. Keelty, Marguerite Dorment, Baltimore, Md.                      | \$6,000               | \$5,321,700   | \$4,289,000              | \$1,052,700           | \$390,000                                       |
| Morton Homes, Inc.; Little Street Homes, Inc.; Emile Homes, Inc.; Marquette Homes, Inc.; Lewis Homes, Inc.; Charles Homes, Inc.; Alex Homes, Inc.; Itasca Homes, Inc.; Natchez, Miss. (Mississippi, 1 project). | Roselawn Construction Co., Paul Kapelow, Lewis I. Leader, New Orleans, La.   | 121,600               | 1,741,600     | 1,274,500                | 467,100               | 595,441   |
| Linwood Park, Inc., Teaneck, N. J.  | Ralph J. Solow, Sidney Sarner, Teaneck, N. J.  | 13,000                | 8,875,000     | 6,662,500                | 2,426,821             | 2,588,425                                       |
| Washington Park Apartments, Camden, N. J.   | Sam Madway, Pauline M. Margolis, Bette Davis Madway, Elizabeth Magen, Madway Engineers & Construction, Bala Cynwyd, Pa.    | 2,000                 | 2,349,000     | 2,162,500                | 186,500               | 220,060   |
| Barrington Manor Apartments, Barrington, N. J.  | Bernard Weinberg, Harry J. Goodwin, Etta H. Weinberg, Philadelphia, Pa.  | 2,000                 | 2,262,200     | 1,846,000                | 416,200               | 252,706   |
| Woodbury Manor Apartments, Woodbury, N. J.  | Dr. Henry Spiegel, Philip S. Seltzer, Philadelphia, Pa.; William Seltzer, Woodbury, N. J.                                  | 1,040                 | 583,600       | 451,000                  | 132,600               | 83,660  |
| Clover Hill Gardens, Mount Holly, N. J.   | Charles H. Sporkin, Philadelphia, Pa.; Herbert G. DuBois, Camden, N. J.; Thomas R. Edwards, Haddonfield, N. J.             | 2,700                 | 1,620,000     | 1,581,000                | 39,000                | 17,152  |
| Parkway Apartments, Inc., Haddonfield, N. J.  | Milton Lundy, Charles H. Sporkin, Nat Sporkin, Philadelphia, Pa.; Thomas R. Edwards, Herbert G. DuBois, Haddonfield, N. J. | 50,000                | 2,929,800     | 2,897,000                | 32,800                | 140,036   |
| Teaneck Gardens, Inc., Teaneck, N. J.   | Ralph Solow, Sidney Sarner, New York City, N. Y.; George I. Marcus, Hackensack, N. J.                                      | 1,000                 | 1,592,000     | 1,566,000                | 105,600               | 103,907   |
| Brookchester, Inc., secs. 1-7, 9 and 10, New Milford, N. J.   | Joseph J. Brunetti, Anna Stewart, Anna Brunetti, Hackensack, N. J.   | 9,000                 | 9,966,500     | 9,694,000                | 272,500               | 638,281   |
| Richfield Village, secs. 1-6, Clifton, N. J.  | Joseph J. Brunetti, Anna Stewart, Anna Brunetti, Hackensack, N. J.   | 6,000                 | 5,289,500     | 5,128,500                | 161,000               | 370,321   |
| Elmwood Terrace, Inc., East Paterson, N. J.   | Herman H. Rosen, Jacque Choron, trustees, Samuel J. Roth, Joel W. Schenker, New York, N. Y.                                | 1,000                 | 2,516,000     | 2,385,467                | 130,533               | 199,506   |
| Jefferson Gardens, Inc., Clifton, N. J. (New Jersey, 13 projects; see also New Jersey projects, pp. 5 and 7).   | Allen J. Adelman, East Orange, N. J.; B. S. Adelman, South Orange, N. J.; Theodore Naftall, Newark, N. J.                  | 90,448                | 921,500       | 809,074                  | 156,426               | 325,980   |
| Rockaway Crests, secs. 1, 2, and 3, Inc., Far Rockaway, N. Y.   | Gustave M. Berne, Great Neck, Long Island, N. Y.; Theodore W. Nass, Far Rockaway, N. Y.                                    | 3,000                 | 14,486,100    | 13,475,000               | 1,371,400             | -----   |
| Kew Gardens Apartments, Inc., Briarwood (Queens County), N. Y.  | Harry L. and Leah Osias, Brooklyn, N. Y.   | 12,000                | 9,266,700     | 8,930,245                | 336,455               | -----   |
| Kew Gardens Hills, Inc., Kew Gardens Hills, N. Y.   | do   | 1,000                 | 3,510,000     | 3,384,500                | 125,500               | 190,000   |
| Do  | do   | 3,000                 | 10,670,500    | 10,213,100               | 457,400               | -----   |
| Parkway Manor, Inc., Flushing, N. Y.  | William B. Greenstein, David H. Bass, Brooklyn, N. Y.  | 2,000                 | 343,500       | 307,300                  | 36,200                | 38,000  |
| Glen Oaks Village, Inc., Bellerose, N. Y.   | George M. and Alfred Gross, Lawrence Morton, Glen Oaks, N. Y.  | 82,500                | 24,359,700    | 20,035,000               | 4,324,700             | 4,600,000                                       |
| Beach Haven Apartments, Inc., Brooklyn, N. Y.   | Fred C. Trump, Jamaica, N. Y.  | 249,000               | 15,922,900    | 12,325,000               | 4,047,900             | 729,000   |

|   |  |         |            |            |           |           |
|---|--|---------|------------|------------|-----------|-----------|
| Rego Park Apartments, Inc., Elmhurst, N. Y.....   | Norman Tishman, David Tishman, Robert Tishman, New York, N. Y.   | 2,000   | 6,457,400  | 4,442,000  | 2,015,400 | 1,700,000 |
| Kingsway Development, Inc., Brooklyn, N. Y....  | Louis Mintz, Max Mintz, Morris Mintz, Monroe Markowitz, New York City, N. Y.   | 1,000   | 1,253,800  | 1,082,500  | 171,300   | 278,444   |
| Elmwood Gardens, Inc., East Paterson, N. J.; Gregory Apartments, Inc., Elisabeth Apartments, Inc., Marine Terrace Apartments, Inc., Astoria, Long Island, N. Y. | Samuel J. Roth, Joel W. Schenker, Harry Ginsberg, George Gregory, Elisabeth Gregory, New York, N. Y.   | 4,000   | 14,666,000 | 12,509,000 | 2,157,000 | 2,162,622 |
| Arrowbrook Gardens Development Corp., Flushing, N. Y.   | Morton Pickman, Lee E. Ellman, Samuel M. Berley, Charlotte Pickman, Bess Berley, Esther Ellman, Forest Hills, N. Y.                          | 2,000   | 2,675,000  | 2,116,000  | 559,000   | -----     |
| Ed. Donner Gardens, Inc., Jackson Heights, N. Y.  | Charlesam Construction Co., Flushing, N. Y.; Charles Donner, president; Charles J. Muss, vice president; Samuel Donner, secretary-treasurer. | 1,000   | 2,306,400  | 1,858,500  | 447,900   | 671,022   |
| Cathedral Gardens, Hempstead, N. Y. ....  | Mack Kanner, Jerry Kanner, Lester Kanner, Merrick, Long Island, N. Y.  | 1,000   | 1,924,500  | 1,505,000  | 482,046   | -----     |
| Kingsway Gardens, Brooklyn, N. Y. ....  | Jack Carner, Helen C. Carner, Samuel Benson, New York City, N. Y.  | 91,908  | 2,358,000  | 1,886,000  | 472,000   | 110,326   |
| Bayshore Gardens, Inc., Belle Harbor, N. Y. ....  | Hyman Zarett, Belle Harbor, N. Y.; Isadore Lehrer, Neponsit, N. Y.; Jack H. Spiegel, no address.   | 10,500  | 1,335,600  | 1,089,000  | 246,600   | 255,000   |
| Alley Park Housing Corp., 77th Road Realty Corp., Bayside, N. Y.  | Queens Valley Development Corp., John Turner, Jamaica, N. Y.   | 6,000   | 6,196,500  | 5,768,000  | 428,500   | 337,906   |
| Iroquois Apartments, Inc., Hollis, Queens County, N. Y.   | Benjamin M. Hess, Haskel Hess, Sidney Kessler, J. Lewis Lazarus, Rubin Garfinkel, Flushing, N. Y.  | 2,000   | 800,000    | 605,000    | 195,000   | -----     |
| Patchogue Gardens, Inc., Patchogue, N. Y. ....  | Jerry Kanner, Mack Kanner, Lester Kanner, Merrick, N. Y.   | 1,000   | 723,900    | 554,000    | 195,236   | 155,000   |
| Kew Terrace, Inc., Kew Terrace No. 2, Inc., Flushing, N. Y.   | Norris Brocher, Alfred Wohl, Astoria, N. Y.; Charles K. Itchkow, Great Neck, N. Y.   | 6,000   | 3,005,800  | 2,463,500  | 542,300   | 555,000   |
| Braddock Garden Apartments, Inc., Queens Village, N. Y.   | Jean Van Dyke Kessler, Harry Rosen, Joseph Pirozzi, Jamaica, N. Y.   | 750     | 1,310,000  | 983,500    | 326,500   | 289,210   |
| Jeffrey Garden Apartments Nos. 1 and 2, Bayside, N. Y.  | Haskell Hess, Benjamin Hess, Sidney Kessler, Jamaica, N. Y.  | 2,200   | 2,278,700  | 1,940,300  | 338,400   | 380,200   |
| Knightsbridge Apartments, Great Neck, N. Y. ....  | Gilbert Tilles, Great Neck Estates, N. Y.; Herman Tilles, William Sanbur, Jamaica, N. Y.   | 10,000  | 1,051,300  | 800,449    | 250,851   | 230,649   |
| Langdale Realty, Inc., Nos. 1 and 2, Bellerose, N. Y.   | Kalman Klein, David Teicholz, Jamaica, N. Y. ....  | 100,000 | 3,014,400  | 2,432,781  | 581,619   | 21,000    |
| Pleasantville Apartments Corp., Pleasantville, N. J.  | Bernard Weinberg, Philadelphia, Pa.; Harry J. Goodwin, Elkins Park, Pa.  | 2,000   | 1,680,000  | 1,471,000  | 209,000   | 230,776   |
| Sanford Gardens, Inc., Flushing, N. Y. (New York, 25 projects).   | Lester Kanner, Mack Kanner, Jerry Kanner, Merrick, N. Y.   | 1,000   | 1,330,500  | 1,082,156  | 249,344   | -----     |
| College View Apartments, Inc., Oklahoma City, Okla. (Oklahoma, 1 project).  | Fred D. Newman, Oklahoma City, Okla. ....  | 9,900   | 98,000     | 69,549     | 28,451    | 10,100    |
| Flamingo Apartments, Inc., Philadelphia, Pa. (Pennsylvania, 1 project).   | Dr. Daniel Gevison, Washington, D. C. ....   | 1,000   | 2,533,800  | 2,252,594  | 281,206   | 180,600   |
| Huron Housing Corp., Huron, S. Dak. (South Dakota, 1 project).  | Shelden F. Reese, Sioux Falls, S. Dak. ....  | 45,525  | 170,000    | 130,000    | 40,000    | 100,292   |
| Billy Mitchell Village, Inc., San Antonio, Tex. ....  | David Muss, Norman K. Winston, Louis N. Kaplan, New York City, N. Y.; Henry W. Penn, San Antonio, Tex.                                       | 56,000  | 3,220,200  | 2,742,500  | 477,700   | 501,242   |
| Midway Gardens, Inc., Pasadena, Tex. ....   | Max Krauss, Alexander Zager, Pasadena, Tex. ....   | 24,000  | 336,500    | 245,900    | 90,600    | 115,000   |
| Bayou Park Apartments, Houston, Tex. ....   | Carl C. Sharp, W. Carlos Morris, Steward Morris. ....  | 89,900  | 1,282,900  | 955,400    | 327,500   | 396,800   |
| Bayou Lake Corp. No. 1, Pasadena, Tex. (Texas, 4 projects).   | do. ....   | 11,900  | 415,000    | 323,000    | 92,000    | 111,900   |

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Projects listed alphabetically by States—Sec. 608 FHA-insured mortgage loans in excess of costs on projects reviewed as of June 4, 1954—Con.

| Name, project location  | Principals  | Paid-in capital stock | Mortgage loan | Reported cost of project | Windfall <sup>1</sup> | Amount of distribution of windfall <sup>1</sup> |
|---|---|-----------------------|---------------|--------------------------|-----------------------|---|
| Warwick Gardens, Inc., Warwick Gardens No. 2, Inc., Newport News, Va. | Albert T. Brout, A. L. Drucker, E. E. Falk, Newport News, Va.                             | \$2,000               | \$3,788,400   | \$3,565,500              | \$222,900             | \$39,000  |
| Shirley-Duke Apartments, Inc., Alexandria, Va....                     | Bryan Gordon, Jr., Arlington, Va.; N. J. Sonnenblick, New York City, N. Y.                | 6,000                 | 13,846,000    | 11,700,000               | 2,146,000             | 2,475,600                                       |
| Bon Haven Apartments, Richmond, Va.....                               | Bertram F. Bonner, Richmond, Va.....  | 3,000                 | 3,916,900     | 3,020,000                | 981,900               | 1,250,000                                       |
| Lewis Garden, Henrico County, Va. (Virginia, 6 projects).             | Franklin A. Trice, Richmond, Va.....  | 526,000               | 3,884,400     | 3,450,550                | 433,850               | 654,250   |
| Huntington Apartments, Inc., Alexandria, Va. (Virginia, 7 projects).  | George A. Ford, William S. Banks, Washington, D. C.; Howard E. Everheart, Alexandria, Va. | 300                   | 570,000       | 463,200                  | 106,800               | 95,100  |
| Grand total, sheets 1 through 9.....                                  | .....   | 4,138,590             | 272,646,300   | 234,486,277              | 39,481,126            | 31,716,000                                      |

<sup>1</sup> Distribution of windfall includes any type of distribution, such as dividends, stock redemption, loans to affiliated corporations, etc., as explained in HHFA press release OA-No. 675. The windfall figure is slightly more than the excess of loan amount over reported cost because of lesser factors affecting the windfall amount in a number of cases.

Projects listed alphabetically by States—Sec. 608 projects on which F.H.A.-insured mortgage loans exceeded costs—Projects reviewed but not covered in report of June 4, 1954

| Project name and location   | Principals   | Paid-in capital stock | Mortgage loan | Reported cost of project | Windfall <sup>1</sup> | Amount of distribution of windfall <sup>1</sup> |
|---|--|-----------------------|---------------|--------------------------|-----------------------|---|
| Hart Manor, Inc., Los Angeles, Calif.....   | Thomas P. Hart, Santa Barbara, Calif.; Philip Yousem, Julian H. Weiss, Los Angeles, Calif.   | \$55,150              | \$481,300     | \$474,400                | \$6,900               | \$55,000  |
| Palmer Park Gardens, Inc., Colorado Springs, Colo.  | Platt Rogers, Gerald P. Phipps, Donald C. Bromfield, John M. Lantz, Denver, Colo.; Walter M. Graham, unknown.  | 92,000                | 1,440,400     | 1,213,800                | 226,600               | 140,000   |
| Essex House, Inc., Indianapolis, Ind.....   | Marvin L. Warner, Jane B. Warner, Joseph H. Kanter, Elvin Kanter, James L. Permutt, Birmingham, Ala.   | 1,000                 | 3,474,900     | 3,221,100                | 253,800               | 210,081   |
| Arcadia Apartments, Louisville, Ky.....   | H. G. Whittenberg, H. N. Lukins, Kathleen F. Whittenberg, Louisville, Ky.  | 5,230                 | 2,419,200     | 2,220,500                | 198,700               | -----   |
| Dumont, Inc. (The Town House), Shreveport, La.  | J. Winston Bradley, Hammond, La.; Leslie M. Haik, Emile M. Haik, New Orleans, La.  | 13,300                | 2,664,000     | 2,611,600                | 52,400                | 280,000   |
| Kensington Gardens, Inc., Kensington, Md.....   | Alfred M. Rinaudot, A. M. Morrison, Bethesda, Md.; S. Walter Bagley, unknown; William F. Carl, Ellis M. Jones, Howard R. Schafer, C. Wayne Mead, John R. Reeves, Henry J. Wolfson, Bethesda, Md. | 28,000                | 405,000       | 351,400                  | 53,600                | 75,750  |
| Sovereign Apartments, Inc., Brookline, Mass.....  | Bernard Roberts, Alfred L. Roberts, Myron C. Roberts, Brookline, Mass.; Samuel Rottenberg, Newton, Mass.; James J. Walsh, Cambridge, Mass.   | 6,400                 | 1,229,200     | 1,102,901                | 126,299               | 25,855  |
| Joy Manor, Inc., Detroit, Mich.....   | Abe Green, Aubrey H. Ettenheimer, Hilda Ettenheimer, Rose Green, Detroit, Mich.  | 20,400                | 1,278,900     | 1,048,100                | 230,800               | 345,500   |
| Raleigh, Inc. (Warwick Apartments), Atlantic City, N. J.  | Sylvester J. Lowery, Merion, Pa.; Ephraim J. Frankel, unknown, L. A. Deace, unknown, Frank M. Steinberg, Merion, Pa.; Sylvester A. Lowry, unknown, Kate Margolin, Merion, Pa.                    | 1,353                 | 2,489,900     | 2,388,937                | 100,963               | 206,600   |
| Audubon Park Apartments, Inc., Jersey City, N. J.   | William Shapiro, Helen Shapiro, Maxwell Tenkin, Mary Tenkin, Jersey City, N. J.  | 3,000                 | 279,000       | 276,167                  | 2,833                 | 8,300   |
| Cedar Lane Manor, Inc., Riverton, N. J.....   | John E. McVaugh, Edwin S. McVaugh, John E. McVaugh, Jr., Charles W. Knight, Riverton, N. J.  | 7,250                 | 290,000       | 278,357                  | 11,643                | -----   |
| Brookside Gardens, Inc., Somerville, N. J.....  | Benjamin Neisloss, Benjamin Braunstein, Harry Neisloss, Jamaica, N. Y.   | 30                    | 3,018,500     | 2,642,900                | 375,600               | 626,000   |
| A. B. K. Apartments, Inc., S. H. R. Apartments, Inc., W. P. H. Apartments, Inc., Bayside, N. Y. | Charles Diringer, Thelma Severence, Isabel Albano, Jamaica, N. Y.; William P. Hahn, Laurelton, N. Y.; Arnold Diamond, Aaron B. Knobler, Samuel H. Rush, Jamaica, N. Y.                           | 15,000                | 3,986,300     | 3,227,800                | 758,500               | 756,269   |

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See footnotes at end of table, p. 3597.

Projects listed alphabetically by States—Sec. 608 projects on which FHA-insured mortgage loans exceeded costs—Projects reviewed but not covered in report of June 4, 1954—Continued

| Project name and location   | Principals  | Paid-in capital stock | Mortgage loan | Reported cost of project | Windfall <sup>1</sup> | Amount of distribution of windfall <sup>1</sup> |
|---|---|-----------------------|---------------|--------------------------|-----------------------|---|
| Hill Development Co. (Oakland Gardens, Section 4), Bayside, N. Y. <sup>2</sup>  | Benjamin Neisloss, Harry Neisloss, Benjamin Braunschtein, Jamaica, N. Y.  | \$30                  | \$1,928,800   | \$1,822,727              | \$104,073             | \$167,410                                       |
| Springfield Development Co., Bayside, N. Y.   | do  | 30                    | 4,714,800     | 3,919,039                | 255,761               | 457,669   |
| Farragut Gardens (now Vanderveer Estates), Brooklyn, N. Y. <sup>2</sup>   | Martin H. Benedek, Brooklyn, N. Y.; Morris Kavy, Henry Hirsch, New York, N. Y.; Alexander P. Hirsch, Marguery, N. Y.; Nathan Neitlick, New York, N. Y.                              | 10,000                | 21,719,300    | 18,127,383               | 3,591,917             | 3,158,000                                       |
| Shore Haven Apartments, Brooklyn, N. Y.   | Fred Trump, Brooklyn, N. Y.   | 14,700                | 10,398,600    | 9,541,928                | 856,672               | 1,605,000                                       |
| Woodbriar Manor, Inc., Elmhurst, N. Y. <sup>2</sup>   | Martin Fisher, Larry Fisher, Emily Fisher, Kew Gardens, N. Y.   | ( <sup>2</sup> )      | 4,867,300     | 3,963,805                | 903,495               | 1,000,000                                       |
| Franklin Terrace Corp., Flushing, N. Y.   | David Minkin, Sigmund S. Briger, Brooklyn, N. Y.; Elias Thall, Jamaica, N. Y.   | 1,500                 | 1,087,000     | 814,618                  | 272,382               | 274,665   |
| Great Neck Oaks, Great Neck, N. Y.  | Joseph Mascioli, Jamaica, N. Y.; Samuel Gutterman, Forrest Hills, N. Y.; Julius Gutterman, Jamaica Estates, N. Y.   | 30,000                | 5,553,900     | 4,635,547                | 918,353               | 75,000  |
| Springwood Village, Inc., Hyde Park, N. Y.  | E. B. Leone, Glen Rock, N. J.   | 1,000                 | 620,200       | 608,956                  | 11,244                | -----   |
| Jackson Apartments, Inc., Jackson Heights, N. Y.  | Harry L. Osias, Leah Osias, Brooklyn, N. Y.   | 2,000                 | 1,603,000     | 1,260,718                | 342,282               | -----   |
| Hunter Gardens, Inc., Queens, N. Y.   | Alfred Kaskel, Doris Kaskel, Brooklyn, N. Y.; David Barrie, unknown.  | 5,000                 | 1,866,800     | 1,512,000                | 354,800               | 290,000   |
| Lakeview Apartments No. 1, Lakeview Apartments No. 2, Queens, N. Y.   | Jean Spector, Dorothy Ann Jaffe, George A. Shapiro, Brooklyn, N. Y.; Alvin B. Wolosoff, Forest Hills, N. Y.; David Minkin, Brooklyn, N. Y.  | 10,000                | 3,068,000     | 2,262,115                | 805,885               | 863,000   |
| Cameron Village Apartments, Inc., Raleigh, N. C.  | J. W. York, Raleigh, N. C.; R. A. Bryan, Goldsboro, N. C.; James M. Poyner, R. B. Woodson, Amy F. White, Raleigh, N. C.   | 52,857                | 2,503,800     | 2,319,845                | 183,955               | 321,250   |
| Country Club Homes, Addition, Inc., Raleigh, N. C.  | E. M. Richards, Thomas Wilson, James M. Poyner, Raleigh, N. C.  | 300                   | 790,000       | 675,644                  | 114,356               | 206,350   |
| Greenway Apartment, Inc., Raleigh, N. C.  | Thomas Wilson, Helen A. Richards, Mary Wolf Wilson, E. M. Richards, Raleigh, N. C.  | 68,000                | 849,500       | 731,941                  | 117,559               | 140,000   |
| Broadview Gardens, Inc., Cleveland, Ohio  | George J. Goudreau, Joseph E. Goudreau, P. J. Dwyer, Parma, Ohio.   | 500                   | 2,833,834     | 2,685,342                | 148,492               | 80,000  |
| Beverly Manor Section I, Inc., Beverly Manor Section II, Inc., Beverly Manor Section III, Inc., Beverly Manor Section IV, Inc., Columbus, Ohio. | Don A. Loftus, Cleveland, Ohio; D. E. Ryan, Minneapolis, Minn.; Jack F. Chrysler, W. R. Robinson, Currie J. Ryan, Cleveland, Ohio; Helen Robinson, Webster R. Ryan, Kingston, N. Y. | 4,000                 | 8,826,400     | 7,772,046                | 1,054,354             | 762,654   |
| Lane Towers, Inc., Eugene, Oreg.  | Robert Coates, Ames Coates, Maryon H. Marshall, Portland, Oreg.   | 26,500                | 1,025,800     | 950,777                  | 75,023                | -----   |
| Park Avenue Investment Co., Portland, Oreg.   | Victor H. Jones, David B. Simpson, Talbot Wegg, Portland, Oreg.   | 2,000                 | 2,772,300     | 2,724,913                | 47,387                | -----   |
| Sams Apartments, Inc., Gaffney, S. C.   | George A. Creed, A. Alvin Creed, Mathie S. Creed, Columbia, S. C.   | 11,000                | 197,600       | 153,935                  | 43,665                | 27,000  |
| Crystal Springs Homes, Spartanburg, S. C.   | P. S. Cecil, T. W. Cecil, C. W. Cecil, D. W. Cecil, Spartanburg, S. C.  | 99,900                | 1,116,400     | 893,519                  | 222,881               | 230,600   |

|  |   |                |                    |                    |                   |                   |
|--|---|----------------|--------------------|--------------------|-------------------|-------------------|
| Shelbourne Towers, Inc., Knoxville, Tenn.....                    | Guilford Glazer, Knoxville, Tenn.; Morris Glazer, Nashville, Tenn.  | 7,000          | 1,682,000          | 1,570,890          | 111,110           | 68,434            |
| Colonial Village Corp., Nashville, Tenn.....                     | do.   | 3,480          | 777,000            | 683,215            | 83,785            | 30,614            |
| Chelsea Gardens, Inc., Memphis, Tenn.....                        | William B. Clark, W. F. Fay, John C. Clark, Memphis, Tenn.  | 1,000          | 1,848,000          | 1,824,224          | 23,776            | -----             |
| Coliseum Park Apartments, Inc., San Antonio, Tex.                | E. J. Burke, Sr., E. J. Burke, Jr., Ross Burke, Mary Jane Vair, Roy Wilson, San Antonio, Tex.                       | 91,000         | 925,600            | 791,199            | 134,401           | 70,800            |
| Jefferson Village, Falls Church, Va.....                         | Charles Rose, Arthur Hamurger, Marshall Coyne, Samuel Rossoff, Irving Rossoff, unknown.                             | 6,300          | 4,852,500          | 4,374,825          | 477,675           | -----             |
| Lake Burien Heights, Inc., Seattle, Wash.....                    | L. E. Baldwin, Vern J. Oja, R. E. Wright, Seattle, Wash.; Martha Anderson, unknown; W. B. Nettleton, Seattle, Wash. | 30,000         | 4,143,600          | 4,080,190          | 63,410            | -----             |
| Panoramic View Corp., Richardson Vista Corp., Anchorage, Alaska. | Harry Lewis, Myer Lurie, Leo Seidenverg, F. M. Reischling, Melvin D. Lurie, Seattle, Wash.                          | -----          | 7,740,400          | 7,665,748          | 74,652            | -----             |
| <b>Total</b> .....   |   | <b>726,210</b> | <b>123,227,034</b> | <b>109,435,051</b> | <b>13,791,983</b> | <b>12,557,801</b> |

<sup>1</sup> The amount set forth in the Windfall column is limited to the excess of the mortgage loan over the reported cost of the project, including the cost of the project land. Distribution in some instances exceeds the amount shown in the windfall column because additional cash was made available principally in the following manner: (1) In those cases where stock was issued for the project land, a like amount was thus made available from the mortgage proceeds; and (2) rents received prior to the first amortiza-

tion payment on the mortgage loan. Distribution of windfall includes any type of distribution, such as dividends, stock redemptions, loans to affiliated corporations, etc., as explained in HFFA Press Release OA, No. 675.

<sup>2</sup> Referred to in Mr. McKenna's testimony before Senate Banking and Currency Committee on June 28, 1954.

<sup>3</sup> Unknown.

The CHAIRMAN. Now we are going to close this phase of our hearings on tomorrow. We have 1 more day and we will finish, even if we have to go until 6 o'clock tomorrow, but I do want to say this, now, to any person in any place in the United States, whose name has been brought into any of these hearings over the past 4 months who feels that he was injured in any way, who wishes to file a statement with this committee to be printed and made a part of the permanent record, or if he wishes to be heard in person, we will arrange for him to be heard, or hear him in November.

We will try to hear them tomorrow, if there is anybody who wants to be heard tomorrow.

In other words, what I am saying is this, that anyone who feels that they have been hurt by the testimony of any witness—for example, if Congressman Preston feels that he was hurt by the testimony of his partner Mr. Bowen. Others have felt the same way—a concern in Indianapolis, my home town, the partners in Meadowbrook, they feel they should again testify and clear up certain facts.

My point is that anyone who feels that they would like to be heard, maybe we can hear them tomorrow. If not, we will hear them in November, or they may file a statement, a letter or a statement with this committee, and it will be printed and be made a part of the record.

But we will finish tomorrow, this phase of our investigation. The investigation will continue beyond tomorrow with a staff not quite as large as we have at the moment, but it will be continued, and while we are going to close the hearings, tomorrow, I don't want anyone to feel that that means we are not going to hold other hearings between now and next February 1, because we possibly will.

I would like to call the press' attention to one thing and that is that you refer to this as a subcommittee and it is not a subcommittee. It is the full committee. Maybe there will only be one or two of us here.

Does anyone know any good reason why we should not recess now?

Very well, we will recess until 10 o'clock in the morning.

(Whereupon, at 3:15 p. m., hearing in the above matter was recessed.)

## FHA INVESTIGATION

FRIDAY, OCTOBER 8, 1954

UNITED STATES SENATE,  
BANKING AND CURRENCY COMMITTEE,  
Washington, D. C.

The committee met, pursuant to recess, at 10:15 a. m. Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart and Beall.

Also present William Simon, general counsel; T. T. Kenney, assistant general counsel; and Clarence M. Dinkins, assistant counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order. The first witness will be Mr. McCormick, Richard McCormick.

Are you representing him?

Mr. RACIOPPI. I represent Mr. McCormick, yes.

The CHAIRMAN. Is Mr. McCormick here?

Mr. RACIOPPI. At the present time, he is ill.

The CHAIRMAN. You just told us now for the first time at 10 minutes after 10.

Mr. RACIOPPI. Naturally, this is the first time I have seen you.

Mr. SIMON. Would you be sworn, Counsel?

The CHAIRMAN. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

### TESTIMONY OF FRANCIS RACIOPPI, WASHINGTON, D. C.

Mr. RACIOPPI. Yes, sir.

The CHAIRMAN. Thank you, sir. Will you please be seated, then?

Mr. SIMON. Where is Mr. McCormick at this moment?

The CHAIRMAN. Will you give your full name and address?

Mr. RACIOPPI. My name is Francis Racioppi.

Mr. SIMON. You are the attorney for Richard McCormick?

Mr. RACIOPPI. Yes.

Mr. SIMON. When did you last speak to Mr. McCormick?

Mr. RACIOPPI. At 9 p. m. yesterday evening.

The CHAIRMAN. Nine p. m. last night?

Mr. RACIOPPI. Yes.

Mr. SIMON. When was the last time before that you spoke to him?

Mr. RACIOPPI. At 12 o'clock on the Tuesday of these hearings.

Mr. SIMON. Twelve o'clock Tuesday?

Mr. RACIOPPI. Yes.

The CHAIRMAN. Of this week?

Mr. RACIOPPI. Of this week.

Mr. SIMON. Where was he when he spoke to you on Tuesday?

Mr. RACIOPPI. We had left these hearings and gone to the Army and Navy Club for lunch.

Mr. SIMON. Was he in good health then?

Mr. RACIOPPI. No, sir.

Mr. SIMON. What was his trouble, then?

Mr. RACIOPPI. Highly nervous.

Mr. SIMON. Because of his anticipated testimony, here?

Mr. RACIOPPI. He is under the doctor's care and has been so, to my understanding from Dr. Perry, who is his physician; he has been under the doctor's care for the last 8 months for a sort of hypertension and some type of high blood pressure and I understand he lost 70 pounds during this period.

Mr. SIMON. Is that connected with the activities we want to question him about?

Mr. RACIOPPI. I have no idea what activity you want to question him about.

The CHAIRMAN. Are you his attorney?

Mr. RACIOPPI. Yes, I am.

The CHAIRMAN. And you have no idea what we want to question him about?

Mr. RACIOPPI. I had better correct that.

I know of his activities, but I don't know what you want to question him about.

The CHAIRMAN. It is very clear to us what we want to question him about.

Mr. SIMON. When were you first told he was too ill to be here, today?

Mr. RACIOPPI. Oh, yesterday, I guess, about——

The CHAIRMAN. About what time?

Mr. RACIOPPI. Ten, or eleven o'clock yesterday.

The CHAIRMAN. Why did you wait until 10 o'clock this morning?

Mr. RACIOPPI. Because I picked up the doctor's certificate yesterday at about 4:30 p. m.

The CHAIRMAN. Why didn't you call us yesterday then, at 4:30?

Mr. RACIOPPI. I didn't think the committee would be here at 4:30 yesterday.

Mr. SIMON. We were here until at least 10 o'clock last night.

What is the name of the doctor?

Mr. RACIOPPI. Dr. T. Tayloe Perry.

Mr. SIMON. How soon can you get the doctor here?

Mr. RACIOPPI. I can call the doctor on the phone, now.

Mr. SIMON. Would you do so and ask him to come right down?

Mr. RACIOPPI. I will be delighted.

Mr. SIMON. Unless your client wishes to change his mind and come himself.

Mr. RACIOPPI. I will call the doctor now.

The CHAIRMAN. You might as well understand, if he doesn't come today, he is going to come tomorrow and if he doesn't come tomorrow, he is going to come later, because he is the chief, key witness on this whole matter and frankly it doesn't look good to us.

Mr. RACIOPPI. I might remind you, he has answered all other subpoenas to come before the committee.

The CHAIRMAN. He has been in executive session; otherwise we wouldn't have him in public.

Mr. RACIOPPI. He was here Tuesday before you. His subpoena read for Tuesday.

The CHAIRMAN. He was here on Tuesday and I read the list and told him he would be called on Friday.

Mr. RACIOPPI. I was with him and we left at that time.

The CHAIRMAN. And at that time he was notified he would be called on Friday?

Mr. RACIOPPI. That is right. Well, we were here Tuesday.

The CHAIRMAN. Of course you were here Tuesday.

Mr. RACIOPPI. I shall call the doctor.

The CHAIRMAN. I have had some telephone calls myself on this whole case, I don't mind telling you, and I am more suspicious than ever after I have had these telephone calls. They can't put pressure on me to keep me from calling these gentlemen, I will tell you that. You might as well know it. That is what makes me very suspicious of this whole thing.

Is Mr. Crump present? Is his lawyer present?

Mr. Crump?

We are not going to call him as a witness this morning. All I wanted to say is, I understand his father is very, very seriously ill, and in this case it will not be necessary to call Mr. Crump.

We will get the same information from Mr. Kornman, of the Shelby Construction Co.

Mr. CRUMP. We appreciate that consideration.

The CHAIRMAN. If we find we need more information from Mr. Crump—and it is direct information we want from him, anyway—we will call him later.

I might say that Crump's connection with Shelby Construction Co. is purely that of the mortgage banker, anyway, and it is just indirect testimony—I don't mean indirect; I mean they didn't own any part of the Shelby Construction Co.

Now, our next witness, then, will be Mr. Stark and Mr. Bart. If you will, please, come forward.

The CHAIRMAN. Which is Mr. Bart?

You are Mr. Bart and you are Mr. Stark?

Will you both be sworn, please?

Do you and each of you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF ALBERT STARK AND HARRY BART, DRUM CASTLE APARTMENTS, BALTIMORE, MD., ETC., ACCOMPANIED BY PAUL BERMAN, COUNSEL, AND BENJAMIN BRILLIANT, ACCOUNTANT**

Mr. BART. I do.

Mr. STARK. I do.

The CHAIRMAN. You are the attorney?

Mr. BERMAN. Paul Berman, Baltimore, Md.

The CHAIRMAN. You are representing who?

Mr. BERMAN. Mr. Bart and Mr. Stark.

The CHAIRMAN. You wish to make a statement?

Mr. BERMAN. I would like to ask the chairman if he read the letter I left here Tuesday?

The CHAIRMAN. That was the letter that you left in which you said that these gentlemen should not be called because they were under indictment at the moment?

Mr. BERMAN. That is correct.

The CHAIRMAN. We appreciate that and the questions we are going to ask them will in no way interfere with the indictment.

Mr. BERMAN. Except the publicity, which you can't control, I understand.

The CHAIRMAN. We can't control the publicity of the prospective indictment and neither can we control publicity in connection with this matter.

Mr. BERMAN. Except the fact I think that they have to stand trial in Baltimore which will almost prevent them from ever obtaining a fair trial as a result of being called to testify publicly.

The CHAIRMAN. Well, we want to talk entirely about the mortgaging out and it has no connection, as I understand it, with the indictment; is that correct?

Mr. BERMAN. I pointed out in the letter the reason for our protest to being called publicly at this time, and I also pointed out that this committee had their testimony in executive session, where they testified fully.

The CHAIRMAN. Let me say this:

We never have a public witness until we have had them in executive session, and get an opportunity to make certain that we are not putting somebody on in public, who ought not to be.

Mr. BERMAN. Well, I just want the record to show that we entered our protest.

The CHAIRMAN. The record will show that you objected to our questioning these gentlemen and that in spite of your objection, we proceeded.

Mr. BERMAN. And I would like the letter which I left with the committee to be made a part of the record.

Mr. SIMON. I think the record should also show, Counsel, that it was you and not me, who first brought up the fact that they were under indictment.

Mr. BERMAN. I think that is true. There is no doubt about that.

The CHAIRMAN. Without objection, we will make the letter a part of the record. It seems to be in the office, and will you make certain, Mr. Reporter, that you have it included in the record, here at this point.

(The information referred to follows:)

OCTOBER 4, 1954.

HON. HOMER E. CAPEHART,

*Chairman, Senate Banking and Currency Committee,*

*United States Senate, Senate Office Building, Washington, D. C.*

DEAR SENATOR CAPEHART: We received subpoenas requiring us to appear before your committee on Wednesday, October 6, 1954, and subsequently, we also received subpoenas requiring us to appear before your committee on October 5, 1954.

Before we are called on to testify, we desire to call your committee attention to indictments pending against us in the United States District Court for the District of Maryland. In these indictments which were filed November 24, 1953, we are each charged in two counts with making certain false statements to special agents of the Federal Bureau of Investigation in connection with an alleged investigation of the conduct of officers and employees of the United

States employed in the Baltimore insuring office of the Federal Housing Administration. We hereto attach copies of said indictments.

We desire to enter our protest to being called to testify before the committee at this time and we respectfully request that the committee excuse us from testifying until after the indictments against us are disposed of, at which time we shall be happy to appear and cooperate in the answering of questions which this committee may put to us. We expect to be brought to trial in the near future because in a hearing on September 10, 1954, in a related case in the United States District Court for the District of Maryland the United States Attorney stated that the Government desires to bring these cases to trial this fall.

The Baltimore papers have already carried a number of front-page articles stating that we have been called to testify before this committee which articles not only mention us together with another builder who it is stated received a so-called windfall of over \$1 million, but also distinctly refer to the fact that we are under indictment charged with "lying to agents of the Federal Bureau of Investigation."

We feel that the nationwide publicity already given to this investigation of the FHA by this committee has seriously prejudiced our cases and if we are called upon to testify by this committee at this time, the publicity will serve no other purpose than to further prejudice our rights to a fair and impartial trial of the charges pending against us and cause us serious and irreparable damage.

We further also respectfully point out that our testimony is not indispensable because we have already testified under oath at an executive session before Messrs. Hogue, Kenney, and Murphy of your committee's staff, on August 13, 1954, at which we gave them all the information which they called for. You also have had access to our income-tax returns from which you can develop a full picture of our finances.

As you will no doubt recall the United States Court of Appeals for the First Circuit in the case of *Delaney v. United States* (199 F. 2d 107), decided October 10, 1952, clearly and emphatically pointed out the prejudice and injustice which is caused to a defendant awaiting trial by the publicity given to an investigation of a congressional committee.

Chief Judge Magruder, in the opinion in that case, in discussing the difficulties that a defendant would have in obtaining a fair trial, after he had been given widespread publicity as a result of hearings held before a congressional committee, said:

"One cannot assume that the average juror is so endowed with a sense of detachment, so clear in his introspective perception of his own mental processes, that he may confidently exclude even the unconscious influence of his preconceptions as to probable guilt, engendered by a pervasive pretrial publicity. This is particularly true in the determination of issues involving the credibility of witnesses."

To require us to testify at this time would also violate our fundamental rights guaranteed to us by the sixth amendment to the Constitution of the United States which guarantees to every citizen a fair and impartial trial.

Respectfully yours,

HARRY BART.  
ALBERT STARK.

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IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF  
MARYLAND

UNITED STATES OF AMERICA v. ALBERT STARK

CRIMINAL No. 22813

Knowingly and willfully making false statements in connection with matters within the jurisdiction of an agency of the United States (U. S. C., title 18, sec. 1001)

The grand jury for the district of Maryland charges:

That on the 6th day of December 1952, at Baltimore, in the State and district of Maryland, Albert Stark, the defendant herein, a building contractor engaged in the business of constructing numerous apartment houses and other housing accommodations as a joint and common venture with one Harry Bart under various corporate names, including United Contractors, Inc., from prior to May 7,

1949, to and after December 6, 1952, said construction projects being financed by means of mortgages insured by the Federal Housing Administration and subject to continuing Federal Housing Administration inspection during the period of construction to verify that said construction was in compliance with Federal Housing Administration approved plans and specifications, having taken an oath before Lindian J. Swaim and E. Lawrence Hyland, special agents of the Federal Bureau of Investigation, officers lawfully detailed by the Federal Bureau of Investigation to investigate irregularities and misconduct of officers and employees of the United States employed in the Baltimore insuring office of the Federal Housing Administration, and lawfully detailed to investigate frauds on, and attempts to defraud, the Government in the functioning of the Maryland offices, employees, and officers of the Federal Housing Administration, matters within the jurisdiction of the Federal Bureau of Investigation, an agency of the United States, that he, the said Albert Stark would state and declare truly, the said Albert Stark did knowingly and willfully make a false and fictitious statement material to the said investigation, to wit: that he, the said Albert Stark had never made any payment of money nor had he given anything of value to any employee or official of the Federal Housing Administration for any reason whatsoever, except that he had purchased some kitchen cabinets for one J. Hamilton Walker, Chief Architect, Baltimore Insuring Office, Federal Housing Administration, for which cabinets the said J. Hamilton Walker had subsequently paid him, the said Albert Stark, in full; and further, that he had no knowledge of anyone else making payments or giving things of value to Federal Housing Administration employees or officials for which there had been no reimbursements, whereas in fact said statement was false and fictitious and then known to the said Albert Stark to be false and fictitious.

## SECOND COUNT

And the grand jury for the district of Maryland further charges:

That on the 6th day of December 1952, at Baltimore, in the State and district of Maryland, Albert Stark, the defendant herein, a building contractor engaged in the business of constructing numerous apartment houses and other housing accommodations as a joint and common venture with one Harry Bart under various corporate names, including United Contractors, Inc., from prior to May 7, 1949, to and after December 6, 1952, said construction projects being financed by means of mortgages insured by the Federal Housing Administration and subject to continuing Federal Housing Administration inspection during the period of construction to verify that said construction was in compliance with Federal Housing Administration approved plans and specifications, having taken an oath before Lindian J. Swaim and E. Lawrence Hyland, special agents of the Federal Bureau of Investigation, officers lawfully detailed by the Federal Bureau of Investigation to investigate irregularities and misconduct of officers and employees of the United States employed in the Baltimore insuring office of the Federal Housing Administration, and lawfully detailed to investigate frauds on, and attempts to defraud, the Government in the functioning of the Maryland offices, employees, and officers of the Federal Housing Administration, matters within the jurisdiction of the Federal Bureau of Investigation, an agency of the United States, that he, the said Albert Stark would state and declare truly, the said Albert Stark did knowingly and willfully make a false and fictitious statement material to the said investigation, to wit: that he knew one Harry House, a Federal Housing Administration inspector, but had no knowledge of the sum of \$500, or any sum of money, ever having been paid to the said Harry House by anyone, and that he had no knowledge of the return by mail by the said Harry House of the sum of \$500 in cash to one Harry Bart, or to himself, the said Albert Stark, or to United Contractors, Inc., Baltimore, Md., whereas in fact said statement was false and fictitious and then known to the said Albert Stark to be false and fictitious.

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United States Attorney.

A true bill.

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Foreman.

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF  
MARYLAND

UNITED STATES OF AMERICA *v.* HARRY BART

CRIMINAL No. 22814

Knowingly and willfully making false statements in connection with matters within the jurisdiction of an agency of the United States (U. S. C. title 18, sec. 1001).

The grand jury for the district of Maryland charges :

That on the 6th day of December 1952, at Baltimore, in the State and district of Maryland, Harry Bart, the defendant herein, a building contractor engaged in the business of constructing a number of apartment houses and other housing accommodations as a joint and common venture with one Albert Stark under various corporate names, including United Contractors, Inc., from prior to May 7, 1949, to and after December 6, 1952, said construction projects being financed by means of mortgages insured by the Federal Housing Administration and subject to continuing Federal Housing Administration inspection during the period of construction to verify that said construction was in compliance with Federal Housing Administration approved plans and specifications, having taken an oath before Lindian J. Swaim and E. Lawrence Hyland, special agents of the Federal Bureau of Investigation, officers lawfully detailed by the Federal Bureau of Investigation to investigate irregularities and misconduct of officers and employees of the United States employed in the Baltimore insuring office of the Federal Housing Administration, and lawfully detailed to investigate frauds on, and attempts to defraud the Government in the functioning of the Maryland offices, employees and officers of the Federal Housing Administration, matters within the jurisdiction of the Federal Bureau of Investigation, an agency of the United States, that he, the said Harry Bart would state and declare truly, the said Harry Bart did knowingly and willfully make a false and fictitious statement material to the said investigation, to wit: That he, the said Harry Bart had never given nor paid any money to any employee or official of the Federal Housing Administration at any time, for any reason whatsoever, whereas in fact said statement was false and fictitious and then known to the said Harry Bart to be false and fictitious.

SECOND COUNT

And the grand jury for the district of Maryland further charges :

That on the 6th day of December 1952, at Baltimore, in the State and district of Maryland, Harry Bart, the defendant herein, a building contractor engaged in the business of constructing a number of apartment houses and other housing accommodations as a joint and common venture with one Albert Stark under various corporate names, including United Contractors, Inc., from prior to May 7, 1949, to and after December 6, 1952, said construction projects being financed by means of mortgages insured by the Federal Housing Administration and subject to continuing Federal Housing Administration inspection during the period of construction to verify that said construction was in compliance with Federal Housing Administration approved plans and specifications, having taken an oath before Lindian J. Swaim and E. Lawrence Hyland, special agents of the Federal Bureau of Investigation, officers lawfully detailed by the Federal Bureau of Investigation to investigate irregularities and misconduct of officers and employees of the United States employed in the Baltimore insuring office of the Federal Housing Administration, and lawfully detailed to investigate frauds on, and attempts to defraud the Government in the functioning of the Maryland offices, employees and officers of the Federal Housing Administration, matters within the jurisdiction of the Federal Bureau of Investigation, an agency of the United States, that he, the said Harry Bart would state and declare truly, the said Harry Bart did knowingly and willfully make a false and fictitious statement material to the said investigation, to wit: That he had never given the sum of \$500, or any sum of money, to one Harry House, Federal Housing Administration inspector, and that he had never received from the said Harry House the sum of \$500, whereas in fact said statement was false and fictitious and then known to the said Harry Bart to be false and fictitious.

-----,  
*United States Attorney.*

A true bill.

-----,  
*Foreman.*

Mr. SIMON. Mr. Stark, will you give the reporter your full name and address, please?

Mr. STARK. Albert Stark, 3603 Green Avenue, Baltimore, Md.

Mr. SIMON. Mr. Bart, will you give the reporter your full name and address?

Mr. BART. Harry Bart, 6808 West Brook Road, Baltimore, Md.

Mr. SIMON. Mr. Bart, are you and Mr. Stark partners or stockholders in the Drum Castle Apartments project?

Mr. BART. No; that is one job that Mr. Stark wasn't in.

Mr. SIMON. Harry and Sarah Bart were stockholders?

Mr. BART. That is correct.

Mr. SIMON. What was the name of the corporation that owned that building?

Mr. BART. The Drum Castle Apartments, Inc.

Mr. SIMON. What was the capital stock?

Mr. BART. \$120,000.

Mr. SIMON. Who constructed the building?

Mr. BART. The Howard Contracting Co.

Mr. SIMON. Who owned the stock of Howard Contracting Co.?

Mr. BART. The contracting company is owned by Harry and Sarah Bart.

Mr. SIMON. That is your wife?

Mr. BART. Yes.

Mr. SIMON. What was the FHA mortgage commitment on Drum Castle Apartments?

Mr. BART. \$2,121,600.

Mr. SIMON. What was the cost of the land?

Mr. BART. The cost of the land was \$120,000.

Mr. SIMON. Who did you buy it from?

Mr. BART. From the Walker family.

Mr. SIMON. And the Walker family owned the other half of the project?

Mr. BART. That is correct.

Mr. SIMON. What did they pay for the land?

Mr. BART. Well they owned the land. They put in as their half, the \$60,000.

Mr. SIMON. I don't follow you.

Mr. BART. They originally owned the land. The Howard Contracting Co. bought half interest for \$60,000.

Mr. SIMON. How much did they pay for it?

Mr. BART. Howard?

Mr. SIMON. Yes.

Mr. BART. \$60,000.

Mr. SIMON. I mean the Walkers.

Mr. BART. Well, they owned it for years. It was in their possession for years.

Mr. SIMON. How much did they pay for it?

Mr. BART. Well, they valued—do you mean originally what they paid for it?

Mr. SIMON. When they bought it, how much did they pay for it?

Mr. BART. It was in the family for probably 50 or 60 years.

Mr. SIMON. What was the actual cost of construction of this project?

Mr. BART. \$1,919,411.65.

Mr. SIMON. Did that include the cost of the land?

Mr. BART. That is right.

Mr. SIMON. That includes all the cost?

Mr. BART. That is right.

Mr. SIMON. So that the total costs of the project were \$202,188, less than the amount of the mortgage?

Mr. BART. That is correct.

Mr. SIMON. Now, let me ask you, where is Drum Castle Apartments?

Mr. BART. Where is it located?

Walter Avenue and York Road. Part in the county, and part in the city.

Mr. SIMON. Baltimore, Md.?

Mr. BART. Yes.

Mr. SIMON. The next one is Park Raven Apartments?

Mr. BERMAN. May I suggest that the Howard Contracting Co. built that as a contractor and paid an income tax on the profit they made.

Might I call that to the committee's attention?

Mr. SIMON. There is no doubt but what that man and his wife own Howard Contracting Co.; is there?

Mr. BERMAN. No doubt at all.

The CHAIRMAN. But they made payment of normal income tax on the profit they made? That specific operation?

Mr. BERMAN. That is correct, sir.

Mr. SIMON. The next is Park Raven Apartments. Who owns the stock in that?

Mr. BART. The Howard Constructing Co.

Mr. SIMON. Is that a wholly owned subsidiary of Howard Contracting Co.?

Mr. BART. Yes.

Mr. SIMON. And you and your wife own the Howard Contracting Co.?

Mr. BART. That is correct.

Mr. SIMON. What was the amount of the FHA mortgage there?

Mr. BART. \$2,041,200.

Mr. SIMON. Did Howard Contracting Co. build the project?

Mr. BART. That is correct.

Mr. SIMON. What was the cost?

Mr. BART. \$1,942—\$1,942,303.36.

Mr. SIMON. Was that the actual cost?

Mr. BART. That was the actual cost.

Mr. SIMON. And that was \$98,800 less than the amount of the mortgage?

Mr. BART. That is correct.

Mr. SIMON. Did that include a profit to you on the acquisition of the land?

Mr. BART. I didn't hear that.

Mr. SIMON. Did that include a profit to you on the acquisition of the land?

Mr. BART. Well, no. The land is in the cost.

Mr. SIMON. The land is in your cost?

Mr. BART. That is right.

Mr. SIMON. Now, on that \$98,000, did you file a consolidated income-tax return or did you pay income taxes on that?

Mr. BART. Consolidated income-tax return.

Mr. SIMON. And you paid no income taxes on that \$98,000; is that right?

Mr. BART. That is correct.

Mr. SIMON. The third project is Seaton Heights?

Mr. BART. That is correct.

Mr. SIMON. Forgive me. Where is Park Raven Apartments?

Mr. BART. The 5400 block Hillen Road, Baltimore, Md.

Mr. SIMON. And the third one is Seaton Heights and where is it located?

Mr. BART. At Liberty Heights and Rogers Avenue, Baltimore, Md.

Mr. SIMON. Who owns the stock of that company?

Mr. BART. Seaton contractors.

Mr. SIMON. And who owns the stock of Seaton contractors?

Mr. BART. Albert Stark and his wife, and myself and my wife.

Mr. SIMON. What was the amount of the FHA mortgage?

Mr. BART. \$1,540,000.

Mr. SIMON. What was the actual cost of construction?

Mr. BART. \$1,538—\$1,537,284.37.

Mr. SIMON. Mr. Stark, doesn't that include \$44,000 that you pay yourself?

Mr. STARK. In salaries; yes, sir.

Mr. SIMON. So that of the \$1,537, you gave us \$44,000 you actually paid yourself?

Mr. STARK. As salary.

Mr. SIMON. So your net costs were \$1,493,000; is that right?

Mr. STARK. That is correct.

Mr. SIMON. The cost you paid to others?

Mr. STARK. Yes.

Mr. SIMON. Was there a premium on that mortgage?

Mr. STARK. Yes. We got 2 percent. We are getting it. We haven't actually got that. We get it in installments.

Mr. SIMON. That would be another \$30,000; is that right?

Mr. STARK. No, that is included in this. Well, part of it is included, I know; because we have gotten some.

Mr. SIMON. Is that which you have received, included?

Mr. BART. We get it in installments.

Mr. SIMON. Is that which you have already received included as a reduction in costs?

Mr. STARK. The auditor says, "Yes."

Mr. BERMAN. The auditor advises us that that is included.

Mr. SIMON. How about Drum Castle and Park Raven; were there premiums, there?

Mr. BART. In Park Raven I think there was. But that premium incidentally, is included in the \$98,000.

Mr. SIMON. All the premiums you got are included as reductions in cost; is that right?

Mr. BART. That is right.

Mr. SIMON. The next is Cross Country Apartments. Who owns the stock in that company?

Mr. BART. United Contractors, Inc.

Mr. SIMON. Who owns the stock in United Contractors?

Mr. BART. The Stark and Bart families.

Mr. SIMON. Where is the Cross Country Apartments?

Mr. BART. It is on Cross Country Boulevard, in Clark's Lane in a settlement called Falstaff.

Mr. SIMON. Is the capital stock of Cross Country Apartments \$3,000?

Mr. BART. That is correct.

Mr. SIMON. And the capital stock of Seaton Apartments was \$2,500?

Mr. BART. That is correct.

Mr. SIMON. You and Mr. Stark own the stock of United Contractors?

Mr. BART. That is correct.

Mr. SIMON. What was the amount of the FHA mortgage there?

Mr. BART. \$3,332,800.

Mr. SIMON. What was the actual cost of construction?

Mr. BART. \$2,196,172.74.

Mr. SIMON. Does that include \$35,000 you paid yourselves?

Mr. BART. Yes.

Mr. SIMON. Excluding the \$35,000 you paid yourselves, are the mortgage proceeds \$171,000 more than the cost?

Mr. BART. If you add \$79,627.26; yes.

Mr. SIMON. Is that correct?

Mr. BART. Yes.

Mr. SIMON. Was there a mortgage premium included there?

Mr. BART. No mortgage premium.

Mr. SIMON. There again I take it you filed a consolidated income-tax return?

Mr. BART. That is right.

Mr. SIMON. And you paid no income taxes on the \$136,000?

Mr. BART. That is correct.

Mr. SIMON. You had two Wherry Act projects at the Army Chemical Center at Edgewood, Md.?

Mr. BART. That is correct.

Mr. SIMON. That is known as Hartford Manor Apartments 1 and 2?

Mr. BART. That is correct.

Mr. SIMON. Who owns the stock in those companies?

Mr. BART. The United Contractors owns the stock in Hartford Manor No. 1.

Mr. SIMON. Who owns the stock in No. 2?

Mr. BART. Edgewood Contractors, Inc.

Mr. SIMON. You and Mr. Bart own the stock in United?

Mr. BART. That is correct.

Mr. SIMON. And who owns the stock in Edgewood?

Mr. BART. The same thing.

Mr. SIMON. The same people?

Mr. BART. That is right.

Mr. SIMON. What was the total amount of the mortgage in the two jobs?

Mr. BART. In No. 1, the mortgage was \$2,057,400.

Mr. SIMON. And what was the mortgage in No. 2?

Mr. BART. \$2,456,700.

Mr. SIMON. My figures on the mortgage on both show \$5,511,000. Is that wrong?

Mr. BART. The first is \$2,574,000 and the second one is \$2,456,700.

Mr. SIMON. \$2,500,000 is the first one?

- Mr. BART. \$2,456,700, on the second one.
- Mr. SIMON. And the first one.
- Mr. BART. \$2,057,400.
- Mr. SIMON. So the total mortgage on both is \$4,511,000?
- Mr. BART. Yes.
- Mr. SIMON. Is that right?
- Mr. BART. \$14,100.
- Mr. SIMON. \$4,514,000?
- Mr. BART. That is right.
- Mr. SIMON. Is that on Government land?
- Mr. BART. Government-owned land; that is right.
- Mr. SIMON. And how many years' lease is it?
- Mr. BART. 76.
- Mr. SIMON. How much is the annual rental?
- Mr. BART. On one it is \$305 and one is \$100.
- Mr. SIMON. So the annual rental is \$405 a year?
- Mr. BART. That is right.
- Mr. SIMON. What were the actual construction costs?
- Mr. BART. On No. 1, \$1,724,650.66.
- Mr. SIMON. No. 2?
- Mr. BART. No. 2 is \$2,242,883.
- Mr. SIMON. The total cost, \$3,966,000? And that is \$546,500 less than the amount of the mortgage?
- Mr. BART. That is right.
- Mr. SIMON. Did you file a consolidated income-tax return there?
- Mr. BART. That is correct.
- Mr. SIMON. And you didn't pay any income taxes on that?
- Mr. BART. That is correct.
- Mr. SIMON. In the five projects, the difference between the mortgage proceeds—excuse me. You also paid yourselves \$75,000 in salaries in the Hartford Manor Apartments project; didn't you?
- Mr. BART. That is right. Mr. Simon, is that on Nos. 1 and 2?
- Mr. SIMON. I would have to ask you. Is that on both of them?
- Mr. STARK. Do you have that transcript? It is in the executive session transcript.
- Mr. BENJAMIN BRILLIANT. It should be \$85,000.
- Mr. SIMON. In the five projects your total costs were \$1,115,000 less than the amount of the mortgage; is that right?
- Mr. BENJAMIN BRILLIANT. That is about right, sir.
- Mr. SIMON. And that is excluding the salaries?
- Mr. BENJAMIN BRILLIANT. Yes.
- Mr. SIMON. And you paid income taxes on the salaries and profits in Drum Castle, which total about \$325,000 and you did not pay income taxes on the remainder which totals about \$790,000?
- Mr. BART. On that Drum Castle, on that \$202,000, taxes have been paid on that.
- Mr. SIMON. I just said that. I said you have paid income taxes on the Drum Castle and the salaries and profits which total \$325,000, and you did not pay income taxes on the remainder which totals approximately \$790,000. Is that correct?
- Mr. STARK. That is right. It hasn't been distributed yet.
- Mr. SIMON. No income taxes have been paid on that?
- Mr. BART. Only on the salaries.

Mr. SIMON. No income taxes have been paid on the \$790,000, is that right?

Mr. BART. That is right.

Mr. SIMON. Mr. Stark, have you ever paid any money to any FHA officials?

Mr. BERMAN. Now, just one moment, Mr. Simon. You assured us—

Mr. SIMON. I have asked him only if he ever paid any money to any FHA officials.

Mr. BERMAN. Now, you assured us that you would not go into that situation.

Mr. SIMON. I did not, sir.

Mr. BERMAN. That is exactly one of the things we are under indictment—

Mr. SIMON. That is not my understanding of what the indictment says.

Mr. BERMAN. Well, I supplied you with a copy of the indictment.

Mr. SIMON. The indictment says that it is for making false statements to an FBI agent.

Mr. BERMAN. In regard to paying money to FHA officials.

Now, how can you distinguish between that?

The CHAIRMAN. Well, you refuse to answer?

Mr. BERMAN. Well, according to what the chairman told us, you wouldn't even ask us about that, you wouldn't go into that.

Mr. SIMON. We are not going into the matter of whether they made false statements to an FBI agent.

Mr. BERMAN. Mr. Simon, how can you draw a distinction there?

The CHAIRMAN. What is your position now?

Mr. BERMAN. The indictment charges us with making false statements to an FBI agent in regard to the question of making payments to employees or officials of the FHA. Now, that is what we are indicted under. You told us definitely you wouldn't go into anything that was covered by the indictment.

Mr. SIMON. The indictment covers making false statements to the FBI and we do not intend to ask him whether they made false statements to the FBI.

Mr. BERMAN. Mr. Simon, you are just playing with us. You are not being frank with us at all. I have a copy of the indictment.

Mr. SIMON. Is there any doubt that the indictment charges making false statements to the FBI? Isn't that what it charges?

Mr. BERMAN. What difference does that make? The false statement is supposed to have been in relation to whether we made any payments to officers or employees of the FHA.

The answer is "No."

Mr. SIMON. Let the man make the answer under oath.

Mr. BERMAN. Now, I am their attorney, Mr. Simon, and here is the indictment.

Mr. SIMON. As a matter of fact, Counsel, you have now made it mandatory that they answer because you can't have the benefit of saying orally that the answer is "No."

Mr. BERMAN. You have just misstated the indictment. You have only stated part of it.

Mr. SIMON. Did I hear you say that the answer to the question would be "No"? Did I hear you say that?

Mr. BERMAN. The answer to the question is "No," that we are not charged only with making false statements; no, no; I am not answering the question. Of course not. The answer to your question, Are we only charged with making false statements to the FBI, is "No."

That is only part of it. The indictment is attached to the letter. Here is the indictment.

The CHAIRMAN. You may read it.

Mr. BERMAN [reading]:

That on December 6, 1952, agents of the FBI, in conducting an investigation relative to irregularities and misconduct of officers and employees of the United States employed in the Baltimore insuring office of the FHA and lawfully detailed to investigate frauds and attempts to defraud the Government in the functioning of the Maryland office, employees, and officers of the Federal Housing Administration, matters within the jurisdiction of the FBI, an agency of the United States, Mr. Bart stated under oath that he would state and declare truly that said Harry Bart did knowingly and willfully make a false and fictitious statement material to the investigation.

And here is what we are indicted under, that we made a false and fictitious statement to the FBI, to wit:

That he, the said Harry Bart, had never given or paid any money to any employee or official of the Federal Housing Administration at any time, for any reason whatsoever, whereas in fact said statement was false and fictitious, and then known to said Harry Bart to be false and fictitious.

The CHAIRMAN. Is it your contention to answer the question "Yes" or "No" will prejudice your constitutional rights before the grand jury? Is it a grand jury? You have already been indicted.

Mr. BERMAN. We are already indicted.

The CHAIRMAN. It will prejudice your case before the courts?

Mr. BERMAN. Yes, Mr. Chairman. And definitely so. And we were assured by Mr. Simon and by the chairman, Tuesday, that you would not go into anything touching on the matter in which we have been indicted. The fact that it was a false statement to the FBI isn't the gist of the indictment. The gist of the indictment is the "to wit," that we said we never made any payments to any agent, or any employee of the FHA.

Mr. SIMON. Well, you know as a lawyer that they are not charged with bribing an FHA official, and you know why they aren't charged with that. The only charge that can be made over there is the false statement charge and that is the only pending charge.

Mr. BERMAN. Relating to what subject? Now, it is not a false statement. The important thing is the subject that the false statement relates to and that is exactly the question that you have asked.

The CHAIRMAN. Your clients would prefer not to answer the question?

Mr. BERMAN. I would suggest, Mr. Chairman, that it is highly improper to ask them the question at this time, publicly, and I would have to advise them not to answer.

Mr. SIMON. That is their privilege. They can take the fifth amendment and not answer if they wish. They have that constitutional right.

The CHAIRMAN. For having made a false statement as to whether you did or did not bribe an FHA official.

If there are no further questions, we thank you, sir.

Mr. BERMAN. At the executive session we went into that and they treated us extremely fairly. They said we didn't have to take the fifth amendment, that they understood the situation and they wouldn't go into it, and I can tell you, I was assured openly right in this room that that would not be gone into. They don't want to have to take the fifth amendment. They shouldn't be put in that position. Not only does this hearing prejudice them to their rights to a fair trial, through all this publicity—which as I say you are not responsible for—but if you now try to force us to take the fifth amendment, look how much more seriously we will be prejudiced.

The CHAIRMAN. Very well, the Chair rules that you need not answer the question.

Are there any other questions?

Senator BEALL. Mr. Chairman, are we going to withdraw the question?

Mr. SIMON. The chairman has ruled he doesn't have to answer it.

The CHAIRMAN. I have just ruled you do not have to answer the question, that is all, due to the fact that you are under indictment as you say, Mr. Counsel, for already having made a false statement as to whether you did or did not—

Mr. BERMAN. It is alleged that that is the case.

Mr. Arthur M. Chaite.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF ARTHUR M. CHAITE, WASHINGTON, D. C.—Resumed

Mr. CHAITE. I do.

Mr. SIMON. Mr. Chaite, have you brought with you all of your information to show all of the checks that you received from Woodner, or any of his companies?

Mr. CHAITE. I only brought with me the same things I had when I left here Wednesday afternoon.

Mr. SIMON. Is that all the information in your possession, custody, or control, relating to checks you received from the Woodners?

Mr. CHAITE. I don't know.

Mr. SIMON. You have been subpoenaed, Mr. Chaite, to produce all those books. Have you complied with the subpoena?

Mr. CHAITE. I haven't been subpoenaed to bring any books related to this.

Mr. SIMON. You haven't?

Mr. CHAITE. No.

Mr. SIMON. Mr. Chairman, may I ask that this witness be subpoenaed to produce every book and record that he has in his possession, custody, or control, relating to the checks he received from the Woodners?

The CHAIRMAN. We so order you to produce those records.

Mr. SIMON. How soon can you bring them here?

Mr. CHAITE. Well, all I have to do is go back to my office and get my records and bring them back to you.

Mr. SIMON. We just want all the records which show the checks that you received from the Woodners.

Mr. CHAITE. All the records that I have?

Mr. SIMON. In your possession, custody, or control.

Mr. CHAITE. That is right.

The CHAIRMAN. I was busy here with another matter. What was the question that brought forth this request?

Mr. SIMON. I asked him, Mr. Chairman, if he had all the information with respect to all the checks that he received from the Woodners, and his answer was in substance, all that he could recollect, or something like that.

The CHAIRMAN. We called him back here today primarily to see whether a signature on a specific check was a forgery or not. He testified day before yesterday that he had no knowledge of receiving \$5,965 check and if his name was signed to the back of it, the inference was that it might well be a forgery.

Mr. CHAITE. All I said was that I didn't recollect that check, Mr. Chairman.

Mr. SIMON. Also he testified that he had received a total of \$66,000 in checks from the Woodners, and I hold in my hand checks made out to his order and purporting to have his endorsement in an amount very substantially in excess of that amount and therefore it seems to me pertinent to have his records to show whether he got this money.

The CHAIRMAN. Would you want at this time to show him those checks and let him say whether or not the signatures on the backs are his signatures?

Mr. CHAITE. Well, Mr. Chairman, may I have a minute, please, sir, with you?

The CHAIRMAN. Yes.

Mr. CHAITE. You will remember on Wednesday afternoon you asked me to search my memory with reference to two checks which Mr. Simon read off and said that I had either received, or that they were charged to my account, or words to that effect.

I did so search my memory and could find nothing definite in there to recollect the exact amount of those checks that Mr. Simon asked me about.

Much to my chagrin and embarrassment, a reporter from the Evening Star called me yesterday afternoon and asked me if I had heard that Mr. Simon had advised the press that in addition to the checks that we were discussing, they have discovered in the Woodner records another large amount of checks which we had not even brought up or mentioned in this thing.

The CHAIRMAN. Let me say this, that if the Evening Star man told you that, he overheard the conversation between Mr. Simon and myself sitting at this desk after you finished, when we were going through those checks and I was looking at them myself.

Mr. CHAITE. You can imagine my feeling.

The CHAIRMAN. Whether he did or whether he didn't the fact remains that you got \$108,000 from Woodner and you testified you only got \$66,000 and we are going to show you these checks and ask you whether or not you got them or whether you didn't. You either perjured yourself the other day or you are going to do it here in a few minutes when we show you these checks.

Mr. CHAITE. That is the reason I would like to take a minute to explain this thing to you so there will be no question of perjury because I don't want to get involved in any question of perjury on this.

The CHAIRMAN. Why don't you just give us the facts?

Mr. CHAITE. I will tell you right now.

The CHAIRMAN. We have had you in executive session, I think at least—I remember a week ago Saturday, I think it was, for a long time and this is about the third time that you have been before this committee.

Now, it seems to me like you would have gotten all your Woodner checks together and brought them in here and tried to prove that you did or did not receive this money.

Mr. CHAITE. Senator, that is exactly what I want to tell you right now, because I don't want any misconception of what I am trying to say to you, or what you are asking me—I am trying to help you in every way. I realize the importance—

Mr. SIMON. Don't tell us that, Mr. Chaite.

Mr. CHAITE. That is true.

Mr. SIMON. Oh, no, no.

Mr. CHAITE. Well, it is your opinion against mine.

I have tried to answer all these questions.

Mr. SIMON. Answer the one question. What is the total amount of money you got from Woodner?

Mr. CHAITE. I don't know.

The CHAIRMAN. Why don't you know?

Mr. CHAITE. Because there are things—

The CHAIRMAN. What do your records show that you received from him?

Mr. CHAITE. The records that I brought down here are exactly those that were picked out by your two investigators when they came to my office.

The CHAIRMAN. You are going to put the responsibility now up to us to tell how much money you received from Woodner?

Mr. CHAITE. The responsibility—I will say this to you, Senator, that you know more about the status of the Woodner books and their accounting methods than I know.

Mr. SIMON. But we don't know how much money you got from Woodner, how much of it you kept, and how much you passed on to somebody else.

Mr. CHAITE. Well, I can say this to you, Mr. Simon, that all the records show is the income which I thought was earned by me which I deposited to my bank account and upon which I paid my income taxes.

Mr. SIMON. Is what you are saying now that the checks that were issued to you and which you cashed but which aren't reflected on your books, represents moneys that you didn't think you earned and on which you didn't pay an income tax?

Mr. CHAITE. I am not saying I cashed any checks. I know nothing about any other accounting system.

The CHAIRMAN. Why don't we show him these \$108,000 worth of checks and let him identify them and say he did or did not—that it is or is not his signature.

Mr. CHAITE. I will be glad to state that it is my signature if it is my signature but I cannot at this time—

The CHAIRMAN. It would be nice of you to state that it was your signature.

Mr. CHAITE. Thank you, Senator. I want to be nice all the time.

I cannot at this time without being given a chance to study the books over which I have no control——

Mr. SIMON. We are not talking about the Woodner books, we are trying to find out how much money a fellow named Chaite got and you are the only living man who ought to know the answer to that.

Mr. CHAITE. All I can tell you is this, if you will give me a chance to reconstruct all the checks that Woodner's books show were received by me, I guarantee you there will be no question about the fact that I received them or didn't receive them, but I need a chance to see what it is all about.

Mr. SIMON. Mr. Chaite, are you telling us that your financial dealings are in such large sums that you could lose \$90,000?

Mr. CHAITE. Who said I lost \$90,000?

Mr. SIMON. You told us under oath that all you can find is \$66,000 that you received from Woodner and we have \$155,000 worth of checks payable to you.

Mr. CHAITE. I am sorry, Mr. Simon. All I said to you was that I have deposit slips totaling around \$66,000, that I deposited those moneys to my account and paid my income taxes on that.

Mr. SIMON. Are you telling us that you did not receive an additional \$90,000?

Mr. CHAITE. I don't know what I receive because the question is 1 or 2 years of hectic work.

Mr. SIMON. Are you telling us your financial transactions are such that you could lose \$90,000?

Mr. CHAITE. I never lost \$90,000. I am not saying that at all, Mr. Simon. I am just asking you to give me a chance to look over those things which you say——

The CHAIRMAN. Well, let's see if he recognizes the signatures on the back of \$155,000 worth of checks.

Mr. SIMON. You testified here under oath the other day that in 1946, you received a \$15,000 check from Woodner, in connection with the Woodner Products Co., and that you returned the check to Woodner uncashed; is that correct?

Mr. CHAITE. That was my recollection.

Mr. SIMON. Was that your testimony under oath here?

Mr. CHAITE. That was my recollection of that transaction.

Mr. SIMON. Was that your testimony under oath here?

Mr. CHAITE. My testimony was that that was my recollection.

Mr. SIMON. That was your testimony.

Mr. CHAITE. That was my recollection of it; yes.

Mr. SIMON. I show you a check dated August 31, 1946, from Woodner to you for \$15,000, which was deposited in the Riggs National Bank and cleared at the Federal Reserve Bank of Richmond, for \$15,000, which was cashed and which purports to bear the endorsement of Arthur M. Chaite, and I ask you if that is your signature on it.

Mr. CHAITE. That is my signature.

Mr. SIMON. Did you cash that check?

Mr. CHAITE. No, sir.

Mr. SIMON. Who got the proceeds of the check?

Mr. CHAITE. I don't know.

Mr. SIMON. Do you still say under oath that you returned the check to Mr. Woodner without cashing it?

Mr. CHAITE. That is my best recollection of this transaction.

Mr. SIMON. Why did you endorse it?

Mr. CHAITE. I don't know.

The CHAIRMAN. Why was it cashed?

Mr. CHAITE. I don't know.

Mr. SIMON. There is no doubt from looking at the reverse side of the check, it was cashed; is there?

Mr. CHAITE. I don't know but it is not my bank.

Mr. SIMON. Is it your endorsement?

Mr. CHAITE. Yes; it is my endorsement.

Mr. SIMON. You say under oath that you got no part of the proceeds of that check?

Mr. CHAITE. To the best of my recollection I got no part of the proceeds of this check.

Mr. SIMON. Mr. Chaite, you are a lawyer and I am certain are aware of perjury laws. Why do you insist on adding "to the best of my recollection"?

Mr. CHAITE. Because I don't remember.

Mr. SIMON. In other words, you are merely saying you don't remember whether you got it.

Mr. CHAITE. That is right.

Mr. SIMON. If we prove it, you want to be clear of perjury on the grounds that you merely said you didn't remember?

Mr. CHAITE. Well, that is your statement and you stick with it. It is all right with me.

Mr. SIMON. Is that true?

Mr. CHAITE. I ignore that question completely.

Mr. SIMON. Let me ask you this about your memory. Have you been able to recall since we talked last, whether Clyde Powell ever called you at home?

Mr. CHAITE. No, sir; I haven't.

Mr. SIMON. You can't recall whether he ever called you?

Mr. CHAITE. No, sir.

Mr. SIMON. Have you ever heard of Clyde Powell?

Mr. CHAITE. I certainly have.

Mr. SIMON. Did you ever see him?

Mr. CHAITE. I certainly have.

Mr. SIMON. Do you know him?

Mr. CHAITE. Yes, sir.

Mr. SIMON. In your whole life, did Clyde Powell ever call you at home?

Mr. CHAITE. I don't know if he ever did.

Mr. SIMON. Did he call you five times in the year 1953, alone, at home?

Mr. CHAITE. I don't know whether he ever did.

Mr. SIMON. You expect us to believe that?

Mr. CHAITE. I certainly do.

Mr. SIMON. I show you 3 checks dated in April and May 1946, from Woodner to you in the amounts of \$500, \$200, and \$65, respectively, and ask you if they bear your endorsement.

Mr. CHAITE. Yes; they do.

Mr. SIMON. Did you receive the proceeds of those checks?

Mr. CHAITE. I have no recollection of these checks at this time.

Mr. SIMON. Did you receive the proceeds of them?

Mr. CHAITE. I don't know.

Mr. SIMON. Is that your signature on the back?

Mr. CHAITE. Yes, sir.

Mr. SIMON. I show you a check dated February 7, 1947, in the amount of \$1,250 and ask you if it bears your signature and whether you received the proceeds of that check?

Mr. CHAITE. That is my signature and since it says "For Deposit Only" I would think that I did receive the proceeds of this check.

Mr. SIMON. Do you know whether you received the proceeds of those checks?

Mr. CHAITE. I don't know.

Mr. SIMON. On April 6, 1946, the Seat Pleasant Bank issued a certified check dated April 5, 1946, for \$5,000. A certified check. Woodner to Arthur M. Chaite.

Did you receive that check?

Mr. CHAITE. I don't know, Mr. Simon.

Mr. SIMON. You don't know?

Mr. CHAITE. No, sir.

Mr. SIMON. On September 1947, Woodner personally gave you a check to Arthur M. Chaite, for \$5,000. I ask you whether it bears your endorsement and whether you received the proceeds of that check.

Mr. CHAITE. It bears my endorsement.

Mr. SIMON. Did you receive the proceeds of that check?

Mr. CHAITE. I don't know, Mr. Simon.

Mr. SIMON. I show you a check dated January 15—I am sorry—June 15, 1950. The Woodner Co. to you for \$5,000. I ask you whether it bears your signature, your endorsement, and whether you received the proceeds of it.

Mr. CHAITE. Yes, sir, that check was received by me and I received the proceeds of that to deposit to my bank account.

Mr. SIMON. Will you hold that aside?

The CHAIRMAN. Let me ask you a question, on this personal check that Mr. Woodner gave you on September 1, 1947, which you just testified has your signature on the back, but you have no recollection whether you got the money or not, do you have any idea what the check was for?

Mr. CHAITE. I am sorry, Senator, I have no idea.

The CHAIRMAN. Do you think you got the money?

Mr. CHAITE. I don't think so.

The CHAIRMAN. But still it is your signature?

Mr. CHAITE. It is, Senator, but as I say, if you will give me—

The CHAIRMAN. Did Woodner have a habit of making out checks to you and having you endorse them and turning them back to him and he securing the money and doing other things with it?

Mr. CHAITE. I don't know that, Senator.

The CHAIRMAN. Well, it looks that way; doesn't it?

Mr. SIMON. Did you cash the check and give the proceeds to somebody else?

Mr. CHAITE. No, sir.

Mr. SIMON. Are you absolutely certain of that?

Mr. CHAITE. Oh, yes, sir.

Mr. SIMON. That is the one thing you have a good memory on.

Mr. CHAITE. I don't give any of my money to anybody else. I have a very good memory on that.

Mr. SIMON. That wasn't my question. You said you didn't give any of your money but how about any of Woodner's money?

Mr. CHAITE. Any of Woodner's money?

Mr. SIMON. You didn't give any of Woodner's money to anybody else?

Mr. CHAITE. No, sir, except in my duty of buying property or something like that for the Woodner organization.

Mr. SIMON. Did you ever give any of Woodner's money to a man named Clyde L. Powell?

Mr. CHAITE. No, sir.

Mr. SIMON. You can't recall whether you ever talked to him on the telephone at home; is that right?

Mr. CHAITE. No, sir. What worries you so much about those calls?

The CHAIRMAN. Well, the fact that they actually happened but you can't remember them worries us for one thing.

Mr. CHAITE. Senator, I don't want to be contentious about it but how do you know it happened? You have a record from somebody that five calls were made to me?

Mr. SIMON. All I know is that the Wardman Park has records showing that they made the calls, that they charged Clyde Powell for the calls, and he paid the charge for the calls, and you tell us you can't remember whether he ever called you in his whole life.

Mr. CHAITE. That is right, Mr. Simon.

Mr. SIMON. Did you ever represent Woodner in the Chanute Field project?

Mr. CHAITE. Yes, sir.

Mr. SIMON. Were you his lawyer there?

Mr. CHAITE. I was of counsel.

Mr. SIMON. You denied that previously, didn't you?

Mr. CHAITE. No, sir.

Mr. SIMON. Didn't you testify under oath in executive session that you were not a lawyer in the Chanute case?

Mr. CHAITE. No, sir.

Mr. SIMON. You are certain of that?

Mr. CHAITE. I am pretty certain of it.

Mr. SIMON. You are not willing to say you are certain of it?

Mr. CHAITE. I am not willing to say I am certain.

Mr. SIMON. I assure you the record shows to the contrary.

Mr. CHAITE. There was no intention in any way to hide the fact that I was of counsel in that case.

Mr. SIMON. I show you a check, dated August 29, 1952, for \$2,500, payable to you, on the Chanute job, and I ask you if it bears your endorsement and whether you got that money.

Mr. CHAITE. Yes, it bears my endorsement, and I got the money and I returned the check to the Woodner Co. I returned my check to the Woodner Co. for the same amount.

Mr. SIMON. That check was returned, the proceeds were returned because you weren't entitled to the money. Isn't that right?

Mr. CHAITE. I don't know why you would say a thing like that.

Mr. SIMON. Why did you return the money, then?

Mr. CHAITE. Because it wasn't enough.

Mr. SIMON. Isn't what happened that Woodner was milking some money out of Chanute and he gave you and a half dozen other people checks out of Chanute for services that you didn't render and you returned it to him?

Mr. CHAITE. Why would he—I don't know what he would do about a thing like that?

Mr. SIMON. Well, the record shows that at the same time you got this \$2,500 check from Chanute, Marshall Granger got an \$8,000 check from Chanute, a lawyer in Washington named Grossberg got a \$10,000 check from Chanute, and a Washington insurance agency got a \$16,000 check from Chanute, and all the moneys were returned to Woodner, and not Chanute.

Mr. CHAITE. Well, that is a surprise to me. All I can tell you is that I returned my own fee.

Mr. SIMON. And you returned it to Woodner and not to Chanute; isn't that right?

Mr. CHAITE. I returned it to the Jonathan Woodner Co.

Mr. SIMON. That is right, but your money came from the Chanute Field escrow fund; didn't it?

Mr. CHAITE. I don't know anything about that.

Mr. SIMON. Where is the check? Will you look at the check and see if it didn't come from the Chanute Field escrow account?

The CHAIRMAN. Look, you say you knew nothing about that when you had the check in your hand just a minute ago and it said on the face of it that it came from there.

Mr. CHAITE. I only read the endorsement on the back.

Mr. SIMON. Will you look at it and see if it isn't a check out of escrow funds for the Chanute project?

Mr. CHAITE. Yes; I see that now in small type over the signature.

Mr. SIMON. And as attorney to the project as you say they were, didn't you know they got into trouble and the remaining funds were put into escrow?

Mr. CHAITE. I was not attorney for the project.

Mr. SIMON. Did you know that funds of the Chanute job were put into escrow?

Mr. CHAITE. (No response.)

Mr. SIMON. Read what it says just above the signature.

Mr. CHAITE. I will be glad to. "Special escrow deposit account."

Mr. SIMON. "Special escrow deposit account." Is that right?

Mr. CHAITE. Yes. I am reading it.

Mr. SIMON. Go ahead.

Mr. CHAITE (reading):

For Chanute Gardens Corp. and Chanute Apartments Corp., FHA project.

Signed by William H. Andrews.

Mr. SIMON. Do you know who he is?

Mr. CHAITE. No; I never heard of him.

Mr. SIMON. But you got \$2,500 out of the special escrow deposit in Chanute and you returned the money to the Jonathan Woodner Co.?

Mr. CHAITE. That is right.

Mr. SIMON. And that was prearranged; wasn't it?

Mr. CHAITE. No, sir.

Mr. SIMON. Why did you return it?

Mr. CHAITE. Because I didn't feel that I should take that money as being payment in full for the work that I did for them.

Mr. SIMON. Had you done any work for the escrow account?

Mr. CHAITE. I don't know any escrow agent.

Mr. SIMON. The man who signed the check.

Mr. CHAITE. No; I didn't do any work for him.

Mr. SIMON. Why didn't you give the money back to the man who paid you?

Mr. CHAITE. He didn't send me the check, the check was sent to me by the Jonathan Woodner Co.

Mr. SIMON. Tell us again who signed the check.

Mr. CHAITE. I read that off to you. I see that very well now, but this man or no escrow agent or no special account or no one came and gave me a check for \$2,500.

Mr. SIMON. Well, I assume the postman gave you the check.

Mr. CHAITE. I don't recollect that. It may have been brought over by one of Woodner's employees, I don't know.

Mr. SIMON. Do you know whether it was?

Mr. CHAITE. No, I don't.

Mr. SIMON. Then, how can you say that it was Woodner who gave you the check?

Mr. CHAITE. Well——

Mr. SIMON. I show you 14 checks in this group which are dated December 29, 1950, for \$934; November 22, 1950, for \$1,568; September 7, 1950, for \$1,000; September 6, 1950, for \$1,500; July 14, 1950 for \$200; June 26, 1950, for \$500; May 5, 1950, for \$500; April 5, 1950, for \$500; March 20, 1950, for \$1,000; February 21, 1951, for \$809; January 26, 1950, for \$500; January 12, 1950, for \$500; February 13, 1950, for \$5,000; and December 31, 1952, for \$649, and I ask you if each of those checks bears your endorsement, and if you received the proceeds of each of them?

Mr. CHAITE. They all have my endorsement except one but since this says, "deposit to the account of Arthur M. Chaite," I imagine my office handled that check.

Mr. SIMON. Have you seen the proceeds of each of those checks?

Mr. CHAITE. I have no idea.

Mr. SIMON. Do you know who could have gotten them?

Mr. CHAITE. No, sir.

Mr. SIMON. You are satisfied, except for the one that was deposited to your account, that one you know you got the proceeds of. Is that right?

Mr. CHAITE. I would take that as a reasonable occurrence.

Mr. SIMON. On the others, do they all have your signature?

Mr. CHAITE. Yes, sir.

The CHAIRMAN. Now, Mr. Chaite, you have testified to some 20 or 25 checks that Woodner gave you, that it was your endorsement on the back, and yet you cannot tell us whether or not you got the proceeds.

Mr. CHAITE. Well, Senator——

The CHAIRMAN. Does that mean that you were in the habit, or that in part of the checks you received from Woodner that you did get the proceeds from other checks that you received from Woodner that you did not and you gave the proceeds back to him or to somebody else? Is that why you answer that you can't remember whether you did or did not?

Mr. CHAITE. No; and I don't want to create that impression with you, Senator.

The CHAIRMAN. Then what is the reason that you can't answer?

Mr. CHAITE. The reason is that I don't know what these transactions were. I have no recollection.

The CHAIRMAN. But you know it was your signature?

Mr. CHAITE. Oh, yes.

The CHAIRMAN. Well, now, does it mean, then, that Woodner was giving you checks and you were endorsing them and then giving the proceeds back to him?

Mr. CHAITE. No, sir; I don't want to create that impression.

The CHAIRMAN. Then, why can't you remember?

Mr. CHAITE. I just can't remember and I say to you, Senator—

The CHAIRMAN. I can appreciate that you couldn't remember what the specific check might be for, out of 20 or 25 checks, but you certainly ought to be able to remember whether or not you had an understanding with Mr. Woodner that part of the checks or part of the moneys he paid you, you gave back to him, or gave it to somebody else at his request, and part of it you deposited in your own account, you ought to be able to remember that.

Mr. CHAITE. Well, Senator, I think I have told Mr. Simon in answer to his question, that I never entered into any agreement to cash checks and give the money back to Mr. Woodner, or anybody else. You must remember in that time I traveled all over the country and bought about \$15 million worth of properties. My traveling status was such that I was away in Chicago, San Francisco, San Antonio, all over the country, at least 2 or 3 days out of each week. On many of those trips, a lot of these checks which I can't remember could be travel advances, travel reimbursements.

The CHAIRMAN. Didn't you keep any records or any books?

Mr. CHAITE. I have records and books.

The CHAIRMAN. Then, is the answer that you did cash checks or did endorse checks and give the funds back to Mr. Woodner?

Mr. CHAITE. No, sir; I don't want to create that impression at all.

The CHAIRMAN. Then what impression do you want to create?

Mr. CHAITE. That I just can't remember the happenings of each of these individual checks.

The CHAIRMAN. I know you can't remember the happenings of each of the checks, I admit that. My point is, did you have an arrangement with Mr. Woodner whereby he would give you checks, you would endorse them, give him back the proceeds or give them to somebody else on part of the checks, and the balance of the checks that you would deposit to your own account? Do you have any such recollection?

Mr. CHAITE. No, sir.

The CHAIRMAN. You do not? And yet you have no slightest idea as to why you would endorse checks and give them back to Mr. Woodner and he would—

Mr. CHAITE. I didn't say I gave them back to Mr. Woodner; I say I have no memory as to the happenings in the case of each of these individual checks.

The CHAIRMAN. Then, how about the total? We have handed you, now, 25 checks. In every instance you said you endorsed them. A few of them you said you deposited the money to your own account.

The others you don't know whether you got the money or whether you didn't.

Now, my point is, you must remember whether you had an arrangement with Mr. Woodner, that on some checks you would endorse them, give them back to him, and he would secure the proceeds and do what he pleased with it, or he would tell you to do certain things with it, and other checks went to your own account.

Mr. CHAITE. May I answer that question for you, Senator?

The CHAIRMAN. Yes.

Mr. CHAITE. I had no arrangement with Mr. Woodner whereby I cashed checks and took the money and gave it back to him or anybody else.

The CHAIRMAN. Can you prove by your books that you did not receive all this money?

Mr. CHAITE. No, sir; but I think I can prove by my books and records, and with these checks, and give Mr. Simon and yourself a satisfactory explanation of every one of them.

Mr. SIMON. We are eager to get it right now.

Mr. CHAITE. If you will send someone over with me to the office, we will sit down—

The CHAIRMAN. Didn't we ask you for your books before?

Mr. CHAITE. I brought all my books that I—

The CHAIRMAN. Why did you testify previously that all you ever received from Mr. Woodner was \$66,000? You possibly were telling the facts, and that the balance, the difference between \$66,000 and \$155,000 went back to Mr. Woodner and he used the proceeds as he saw fit, or you gave it to a third party that Mr. Woodner directed you to give it to; aren't those the facts?

Mr. CHAITE. No, Senator; and I don't want to create that impression.

The CHAIRMAN. Why did you say \$66,000?

Mr. CHAITE. I kept my records in such a fashion—

The CHAIRMAN. You have a record of \$66,000?

Mr. CHAITE. Yes.

The CHAIRMAN. Don't you have a record of the other \$90,000 or \$95,000?

Mr. CHAITE. May I answer your question, Senator?

The CHAIRMAN. Yes.

Mr. CHAITE. I kept my records in such a fashion that what I considered my earnings and in my bank and paid my income tax on it.

Mr. SIMON. This is a check dated October 12, 1950, payable to Arthur Chaite for \$5,796. It was cashed at the Riggs Bank, in cash. It wasn't deposited in any account. It bears on the back first, the signature of Arthur Chaite, and second, the signature of J. Richard Stuckey, which was an employee of Woodner.

The CHAIRMAN. I want to know if that is your signature and did you get the proceeds of that check?

Mr. CHAITE. That is my signature, Senator.

The CHAIRMAN. Did you get the proceeds of the check?

Mr. CHAITE. I have no recollection of this check at all.

The CHAIRMAN. Why did Mr. Stuckey sign his name under your name?

Mr. CHAITE. I don't know, sir.

The CHAIRMAN. You haven't the slightest idea?

Mr. CHAITE. No, sir.

The CHAIRMAN. Did you give the check to Mr. Stuckey?

Mr. CHAITE. It looks like a check that I never used, sir.

The CHAIRMAN. You never saw it.

Mr. SIMON. But somebody got the \$5,700.

The CHAIRMAN. You admit that it is your signature?

Mr. CHAITE. Yes, sir.

The CHAIRMAN. If you didn't get the proceeds, how could your signature be on there?

Mr. CHAITE. Well, I just think that in the ordinary course of business when I returned a check—the amount is such a peculiar amount I have absolutely no idea about it, Senator.

The CHAIRMAN. Well, Mr. Woodner doesn't have any idea. He can't explain the check and you can't explain the check.

Now, where is Mr. Stuckey?

Mr. SIMON. Is he still employed by the Woodner Co., as far as you know?

Mr. CHAITE. I don't know.

Mr. SIMON. When did you see him last?

The CHAIRMAN. Bring Mr. Stuckey in here at 2 o'clock this afternoon and let's find out from him what his recollection of this check is.

Mr. SIMON. Mr. Chaite, you testified the other day that you had no business dealings with Woodner prior to 1950, is that right?

Mr. CHAITE. No, sir; I didn't testify to that.

Mr. SIMON. You didn't?

Mr. CHAITE. No.

Mr. SIMON. Did you have business dealings with him prior to 1950?

Mr. CHAITE. In 1946 we had one business relationship. That was the Wood Products Corp.

Mr. SIMON. Other than that matter did you have any other business relations with him prior to 1950?

Mr. CHAITE. Not that I know of.

Mr. SIMON. But you are not prepared to say you didn't?

Mr. CHAITE. I just don't know.

Mr. SIMON. Prior to 1950, did you act as intermediary between Woodner and Powell?

Mr. CHAITE. No, sir.

Mr. SIMON. I hold in my hand a memorandum found in the files of the Woodner Co., dated May 28, 1947.

It is a memorandum from Arthur Chaite to Ian Woodner. It says:

(1) Under title 608 application to FHA must have mortgagee.

(2) Prob: Recredit or return of application fee under title 608's in direct discretion of Assistant Commissioner.

Would that be Powell?

Mr. CHAITE. It might be.

Mr. SIMON. It would be, wouldn't it?

Mr. CHAITE. I don't know. There is more than one assistant commissioner.

Mr. SIMON. But only one Assistant Commissioner for Rental Housing, wasn't there?

Mr. CHAITE. Yes, but more than one assistant commissioner who might deal with return of fees.

Mr. SIMON. Wasn't section 608 purely rental housing?

Mr. CHAITE. Section 608 was purely rental housing.

Mr. SIMON. So wasn't Powell the only Assistant Commissioner who would have discretion to return fees under section 608?

Mr. CHAITE. He might be.

Mr. SIMON. He would be; wouldn't he?

Mr. CHAITE. Well, maybe. He might be. I don't know whether he would be or not.

Mr. SIMON. What other Assistant Commissioner had discretion for the return of fees, under section 608?

Mr. CHAITE. The Underwriting Assistant Commissioner may have something to say about that, depending on how far the Underwriting Division had gone into the work.

Mr. SIMON. Let me read, here.

Prob re creditor return under title 608's in discretion of Assistant Commissioner, who advised me that ordinarily he would permit credit or return of fee, unless local office had been put to such trouble—like change of site, new plan site, and so forth—making it advisable for FHA to keep additional fee. I think I can get this money back for you, in the instant case.

Now, who was the Assistant Commissioner you talked to?

Mr. CHAITE. I don't remember that, at all.

Mr. SIMON. I will show you the memo and see if it refreshes your recollection any.

The CHAIRMAN. First, did you write the memorandum, or dictate it?

Mr. CHAITE. I can't tell because my signature isn't on it. This is not one of my memo forms.

Mr. SIMON. It is one of Woodner's memo forms; isn't it?

Mr. CHAITE. Yes, it is one of Woodner's memo forms.

Mr. SIMON. Did you dictate that memorandum?

Mr. CHAITE. I have no recollection of it.

Mr. SIMON. You are not prepared to say under oath you did not?

Mr. CHAITE. I have no recollection of it.

Mr. SIMON. Are you prepared under oath to say you didn't do it?

Mr. CHAITE. I have no recollection of it.

Mr. SIMON. If, Mr. Chaite, you had done no work for Mr. Woodner prior to 1950 with respect to Powell, or FHA, I would think you would have no reluctance in saying under oath that you did not dictate it.

Mr. CHAITE. Your idea of my reluctance is something that I cannot combat with.

I can just say that I have no memory of this.

Mr. SIMON. And you still insist that you merely have no recollection of that, but that you were doing no work for Woodner, on section 608's at the time?

Mr. CHAITE. That is right.

Mr. SIMON. And you are unwilling to say that you didn't dictate that?

Mr. CHAITE. I just have no memory of it.

Mr. SIMON. Did you have an office in the LaSalle Apartment Building, room 621?

Mr. CHAITE. Yes, sir.

Mr. SIMON. Why was Woodner paying the rent on that office?

Mr. CHAITE. Not on my office.

Mr. SIMON. He wasn't? What was the rent there, was it \$100 a month?

Mr. CHAITE. He had his own office in that building.

Mr. SIMON. Whose office was 621?

Mr. CHAITE. I think we—I don't know whether that was the number of my office, his office, and everybody else's office. I just don't remember the number of the office.

Mr. SIMON. You don't remember?

Mr. CHAITE. No.

Mr. SIMON. Did you and he have the same office?

Mr. CHAITE. No. We were in the same suite.

Mr. SIMON. You mean you had the same suite but each had a private office?

Mr. CHAITE. Right.

Mr. SIMON. But you were in the same offices, is that right?

Mr. CHAITE. It could be right.

Mr. SIMON. Well, I don't know. I am asking you. It makes no difference to me whether you call it the same suite, the same set of offices, the same building.

Mr. CHAITE. I was in the LaSalle Apartments, so was Woodner.

Mr. SIMON. Whose office was 621?

Mr. CHAITE. I don't know.

The CHAIRMAN. How long were you in this LaSalle Building?

Mr. CHAITE. In the building, itself? I would say—

The CHAIRMAN. How long did you have a suite, there?

Mr. CHAITE. I would say about 4 years.

The CHAIRMAN. Four years and you still wouldn't remember whether your room was 621 or not?

Mr. CHAITE. I was in that office for a very short period of time.

Mr. SIMON. In what office for a short period of time?

Mr. CHAITE. In the same office where Mr. Woodner had office space.

Mr. SIMON. Was that 621?

Mr. CHAITE. I don't remember the number of it.

Mr. SIMON. Why would Woodner be issuing checks to you for the payment of rent at the LaSalle and still be issuing his own checks to the LaSalle for office 621?

Mr. CHAITE. I don't know.

Mr. SIMON. You don't know?

Mr. CHAITE. I don't know. No.

Mr. SIMON. Do you have any idea at all?

Mr. CHAITE. No.

The CHAIRMAN. Are you going to testify under oath now that room 621 was not your room in the LaSalle?

Mr. CHAITE. No, sir, I am not going to testify under oath that it wasn't. I just say I don't remember the number of the room.

The CHAIRMAN. Mr. Chaite, I show you two more checks dated November 6, 1950, both dated the same day, and bearing consecutive numbers, each made payable to you, each purporting to have been endorsed on the back by you, each subsequently endorsed by J. Richard Stuckey, and each cashed—that is the cash obtained at the Riggs National Bank—and I ask you if those signatures—I am sorry, the one is for \$1,000, payable to you and endorsed as I have indicated; the

other is for \$500 but the consecutive check number payable to cash, but endorsed by you, and then by Stuckey, and I ask you if those are your signatures and if you got the proceeds?

Mr. CHAITE. Those are my signatures, but I don't remember whether I got the proceeds.

Mr. SIMON. I show you another check payable to cash for \$500, bearing your signature and that of Stuckey and ask you if you got the proceeds?

Mr. CHAITE. That is my signature but I don't remember if I got the proceeds.

Mr. SIMON. I show you a group of 18 checks in the amounts of \$580—

The CHAIRMAN. What happened to these? I was trying to get Mr. Stuckey.

Mr. SIMON. He said he endorsed them but he doesn't know whether he got the proceeds.

The CHAIRMAN. Does he know whether Mr. Stuckey got the proceeds or not?

Mr. SIMON. Do you, Mr. Chaite?

Mr. CHAITE. No, sir.

Mr. SIMON. I show you a group of 18 checks in the amounts of \$580, \$993, \$1,000, \$1,176, \$5,000, \$5,000, \$500, \$500, \$5,000, \$817, \$220, \$10,000, \$500, \$1,000, \$1,000, \$500, \$20,000, and \$15,000, and I ask you if each of those checks bears your signature and if you got the proceeds of each of them?

Mr. CHAITE. Of the list that you read, Mr. Simon, September 7, 1950, check for \$15,000 was deposited by me to my account.

The December 6, 1950, check for \$20,000 was deposited by me to my account. The February 7 check for \$1,000, was deposited by me to my account.

This check of February 19, 1951, referring to a reimbursement from Fredricksburg, Va., for \$1,000, I have no memory of it, but it says it was deposited to my account.

This March 15 check, of \$10,000 was deposited to my account.

The July 2, 1951, check for \$5,000, was deposited to my account.

The October 24, 1951, check for \$5,000. was deposited to my account.

The October 19 check, 1951, for \$5,000, was deposited by me to my account.

These other checks in amounts of \$580, \$993, \$1,176, \$500, \$871, \$220, \$500, \$500, \$500, and \$1,000, all bear my endorsement on the back and bear the legend "For travel reimbursement, travel advanced," but I have no recollection of these individual ones.

Mr. SIMON. Do you deny getting the money?

Mr. CHAITE. No, sir, I don't deny it, I just have no recollection of it.

Mr. SIMON. I show you seven checks. One for \$2,000, one for \$660, one for \$788, one for \$100, one for \$500, one for \$200, and one for \$25,000. I ask you if you received each of those checks, if the endorsement on the back is yours, and whether you received the money.

And I would particularly like your comment on the \$2,000 check which is noted "Advance," the \$500 check which is noted "Promotion," and the \$25,000 check which is made out to Arthur Chaite, trustee.

Mr. CHAITE. The \$200 check, Mr. Simon, made to me as trustee, and the \$25,000 check made to me as trustee, were used for the purchase of property in San Antonio, Tex.

Mr. SIMON. What did you do with the money?

Mr. CHAITE. Paid it to the seller of the ground.

Mr. SIMON. How did you pay it to him?

Mr. CHAITE. By check.

Mr. SIMON. By your check?

Mr. CHAITE. Yes.

Mr. SIMON. Did you deposit that check in your books?

Mr. CHAITE. In a special—

Mr. SIMON. In your account?

Mr. CHAITE. In a special account for this deal only.

Mr. SIMON. Where was that account maintained?

Mr. CHAITE. Liberty National Bank.

Mr. SIMON. In Washington?

Mr. CHAITE. Yes, sir.

Mr. SIMON. Do you still have the bank statements for that account?

Mr. CHAITE. I think so. If not, I can get them very quickly from the bank for you. There was only one transaction.

Mr. SIMON. The bank wouldn't have the canceled checks. Do you have the canceled checks?

Mr. CHAITE. If I don't have it I can get you a record.

The CHAIRMAN. What was the answer to the \$25,000 check?

Mr. CHAITE. It was used by me, sir, to buy property for Mr. Woodner in San Antonio, Tex.

The CHAIRMAN. And you can bring in to us, this afternoon, the canceled checks?

Mr. CHAITE. If I have them. If not, I will go to the bank and get the records. There was a special account opened for this one deal.

The CHAIRMAN. What did you purchase?

Mr. CHAITE. About 1,200 lots.

The CHAIRMAN. What happened to them?

Mr. CHAITE. I think the Woodners built houses on them.

The CHAIRMAN. In San Antonio, Tex.?

Mr. CHAITE. Yes, sir.

The CHAIRMAN. Well, we will have to prolong our inquiry, I guess. We knew nothing about them.

Mr. SIMON. Now what are the other checks for?

Mr. CHAITE. Well, they all bear my endorsement, but I have no recollection of the individual items in there.

Mr. SIMON. You don't know what they were for?

Mr. CHAITE. No.

Mr. SIMON. How about that promotion one? That word "promotion" also intrigues me.

Mr. CHAITE. I don't know, unless I was promoted.

Mr. SIMON. What were you promoting with the proceeds?

Mr. CHAITE. It says in here—it has the words "Dayton, Ohio," in there.

Mr. SIMON. What were you promoting?

Mr. CHAITE. I was buying a piece of property in Dayton, Ohio.

Mr. SIMON. What was the promotion money for?

Mr. CHAITE. I don't know what it is.

Mr. SIMON. Isn't that a familiar term for paying somebody off?

Mr. CHAITE. Maybe in your language; not in mine.

Mr. SIMON. How well did you know Clyde Powell?

Mr. CHAITE. I didn't know him well, at all.

Mr. SIMON. How many times did you talk to him in your life?

Mr. CHAITE. Oh, that is a terrible question. I used to work with the man.

Mr. SIMON. Let us say from the day you left FHA, how many times did you talk to him?

Mr. CHAITE. Maybe a dozen times.

Mr. SIMON. A dozen times?

Mr. CHAITE. That is right.

Mr. SIMON. Are you certain it wasn't more than a dozen?

Mr. CHAITE. I am not certain. I said maybe a dozen times.

Mr. SIMON. Maybe a hundred times?

Mr. CHAITE. It couldn't have been that many.

Mr. SIMON. What is the maximum number?

Mr. CHAITE. I don't know.

Mr. SIMON. What is the maximum number of times you could have called him on the telephone, or he called you on the telephone?

Mr. CHAITE. I have no idea.

Mr. SIMON. Well, could you fix a ceiling beyond which it couldn't go?

Mr. CHAITE. Why should I fix a ceiling? Why are you trying to make me fix a ceiling and I have to go down to a minimum? It is ridiculous.

Mr. SIMON. The thing that intrigues me, sir, is that you are in no way willing to commit yourself on anything we can check up on.

Mr. CHAITE. Well, I can't help you on that.

The CHAIRMAN. You say it is ridiculous. It is ridiculous that you and Mr. Woodner can't tell us the purpose of all these checks and whether you did or did not get the money.

Mr. CHAITE. I will be very happy, Senator, to reconstruct the entire record with regard to checks made out to me.

Mr. SIMON. Can you reconstruct the telephone calls with Clyde Powell, too?

Mr. CHAITE. I cannot reconstruct anything that I know nothing about.

The CHAIRMAN. You know nothing about Clyde Powell calling you at home?

Mr. CHAITE. That is right.

Mr. SIMON. Would you deny that he did call you at home?

Mr. CHAITE. I only say this to you, that I have no memory of any calls that Clyde Powell made to my home.

Mr. SIMON. None whatever?

Mr. CHAITE. None whatever.

Mr. SIMON. In spite of the fact that, just last year alone, the Wardman Park records show he called you five times?

Mr. CHAITE. Yes, and in spite of the fact that you have asked me that same question a dozen times.

Mr. SIMON. The reason I ask is that I can understand how you wouldn't know if he called you 5 times or 20 times, but I can't understand a man who would say he doesn't recall whether Clyde Powell ever called him.

Mr. CHAITE. Well, it is possible. I just have no memory of a call from Clyde Powell. There is no reason in the world why Clyde Powell should call me. Why should I remember a thing like that?

The CHAIRMAN. Will you appear in room 301, Mr. Chaite, at 2 o'clock, with all your records and be prepared to tell us at that time

whether you did or did not receive the proceeds of these checks, and the purpose of the checks?

Mr. CHAITE. I will be glad to.

The CHAIRMAN. At 2 o'clock, in room 301.

Is Mr. McCormack's doctor present?

Mr. RACIOPPI. The doctor will be here at 11:30, Senator.

The CHAIRMAN. Thank you.

Now, I would like to place into the record, at this time, 2 wires received from—1 of them from David M. Brotman, doctor, of Beverly Hills, Calif., another one from Wyant LaMont, a doctor in Beverly Hills, Calif., in respect to Louis Lesser, who was supposed to be a witness here this morning.

(The telegrams referred to follow:)

BEVERLY HILLS, CALIF., October 7, 1954.

Senator HOMER CAPEHART,

*Senate Banking and Currency Committee:*

Louis Lesser examined by me for purpose of treatment for illness of week's duration; temperature, 102; reddened throat, stuffy nose, bad diarrhea; diagnosis, influenza (grippe), chronic dysentery from food poisoning; recommended bed rest and suitable medication for period of 2 to 4 days.

WYANT LAMONT, M. D.

BEVERLY HILLS, CALIF., October 7, 1954.

Senator HOMER CAPEHART,

*United States Senate Banking and Currency Committee,  
301 Senate Office Building, Washington, D. C.:*

Louis Lesser examined by me today; history of gastronomical intestinal disturbances past 3 weeks, accompanied by diarrhea. Physical examination today: Temperature, 102.6; pulse, 104. Throat infected. Tongue coated. Abdomen moderately tender and distended. Diagnosis, virus infection of upper respiratory tract and infectious colitis.

DAVID M. BROTMAN, M. D.

The CHAIRMAN. I would also like to place in the record the history of our trying to get Mr. Lesser before this committee, which has been a very unsatisfactory one. (See p. 3633.)

I would also like to instruct the staff to serve a subpoena upon Mr. Lesser to appear here at 10 o'clock on November 9, and also a subpoena upon Mr. DeGrazia to appear at the same time on November 9.

Mr. Lesser's is a very, very unusual situation. I want to say this:

We will set down for 2 o'clock, November 9, Mr. Lesser's hearing on the matters which we wish to discuss with him, and also at that time I will present to the committee, the question of whether or not they want to cite Mr. Lesser for contempt for refusing to appear or failing to appear before this committee, today.

One of the wires from the doctors says that he did not come in to see him until yesterday, knowing that he had been subpoenaed many, many times, to appear before this committee this morning at 10 o'clock, and yet he doesn't appear before the doctor until yesterday.

It is pretty hard to get to Washington, D. C., from California—if he was sick, he certainly knew it several days ago.

Mr. SIMON. Senator, before you get to this matter, could the record show that on August 4, 1954, a member of our staff, James Walter, talked to Mr. Lesser, on the long-distance telephone and Mr. Lesser agreed to be here in Washington for an executive session on Saturday, August 7, at 12 noon.

Mr. Lesser did not appear at the executive session at 12 noon, August 7, and the following week we received a letter from Mr. Lesser post-marked, Los Angeles, Calif., August 6, 1954, at 9:30 a. m., after it would have been too late for him to get here if he had cared to, and the letter says:

DEAR SIR: I have had reservations to fly to Europe with my wife for almost a year. Due to the press of business which I must clean up before I leave, I find it impossible to come to Washington at this time to testify. I expect to return from said trip in September, at which time I will comply with your request if you still want me to testify.

Very truly yours.

and, the efforts that you have cited, follow his return from Europe.

The CHAIRMAN. There isn't any question in my mind but what he has been deliberately trying—well, he has been successful in evading this committee up to this point. Even in his failure to appear here, today. I just want to say to Mr. Lesser, that he will now be subpoenaed for 10 o'clock on November 9, and he need not feel that he can avoid appearing before this committee.

I place in the record the two wires from the doctors, and I might say this, in a telephone conversation with one of our staff members and Dr. LaMont, he said Mr. Lesser came in to see him yesterday for the first time.

And that he, Mr. Lesser, dictated the wire and took the wire out and as far as he knows, if he received a wire from the doctor, it was sent by Mr. Lesser.

However, Mr. Lesser did dictate the wire in the presence of him.

We will place that in the record and see Mr. Lesser on November 9, and Mr. DeGrazio on November 9, likewise.

Mr. Chaite is appearing in executive session at 2 o'clock and we will probably have him later today.

If necessary, we will continue these hearings tomorrow, if we have to, to clean up our work, if anybody has an idea that they are going to keep from testifying because we are supposedly finishing today.

Now, are Messrs. Hill and Carson present.

Will you please come forward?

Will you be sworn?

Do you and each of you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

### TESTIMONY OF JOHN H. HILL AND R. EMERSON CARSON, CHARLESTON, W. VA.

Mr. HILL. I do.

Mr. CARSON. I do.

The CHAIRMAN. Thank you very much; please be seated and give your full names and addresses to the reporter for the record.

Mr. HILL. I am Mr. John Hill.

Mr. CARSON. I am R. Emerson Carson.

The CHAIRMAN. What is your home address, Mr. Hill?

Mr. HILL. 215 Sheridan Circle, Charleston, W. Va.

Mr. CARSON. 994 Loudon Heights Road, Charleston, W. Va.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Carson, will you tell us briefly and in your own words, your experience with Richard McCormack in soliciting you in the Wherry Act project in which you were interested?

Mr. CARSON. Yes.

A friend of mine came in to see me and asked if I was aware of the possibilities of this act and I stated I was not. He stated that out in the Midwest somewhere he had encountered a man by the name of McCormack.

My friend told me that he had met a man out in the Midwest somewhere who had been instrumental in placing one of these projects—

The CHAIRMAN. Will you speak a little louder, please?

Are you a builder?

Mr. CARSON. No, sir; I am an insurance agent.

The CHAIRMAN. Mr. Hill, you are a builder?

Mr. HILL. Yes.

Mr. SIMON. You got into this first and then you brought Mr. Hill in?

Mr. CARSON. That is right.

The CHAIRMAN. Some man came to you and said what?

Mr. CARSON. That Mr. McCormack was a man he met in the Midwest somewhere, and Mr. McCormack had been successful in sponsoring one of these housing developments?

The CHAIRMAN. That is Mr. Richard McCormack?

Mr. CARSON. Yes, sir.

The CHAIRMAN. He had been successful in what?

Mr. CARSON. In sponsoring one of these defense housing projects.

Mr. SIMON. And you got in touch with Mr. McCormack, did you?

Mr. CARSON. No, sir, I did not. My friend told me about it and explained to me the possibilities of it. I was interested as an insurance and bonding agent, so he and I came to Washington and met Mr. McCormack who in turn introduced us to some other people.

The CHAIRMAN. Who were the other people?

Mr. CARSON. The other man was Marshall Diggs.

The CHAIRMAN. What was his business?

Mr. CARSON. Well, he was an attorney.

The CHAIRMAN. Where did you meet with Mr. Diggs?

Mr. CARSON. We met with him in his office.

The CHAIRMAN. Here, in Washington?

Mr. CARSON. Yes, sir.

The CHAIRMAN. Do you remember the building it was in, or the address?

Mr. CARSON. I believe it was on Connecticut Avenue.

The CHAIRMAN. But you first met Mr. McCormack and he took you to Mr. Diggs, the attorney?

Mr. CARSON. That is right.

The CHAIRMAN. Now tell us what happened; will you please?

Mr. CARSON. Well, we went to Mr. Diggs' office and the method of obtaining one of these projects was explained to me.

The CHAIRMAN. By one of these projects, you mean what kind of project?

Mr. CARSON. Defense-housing project.

The CHAIRMAN. Under the so-called Wherry Act, the so-called Wherry housing?

Mr. CARSON. Yes, sir.

The CHAIRMAN. And Mr. Diggs and Mr. McCormack explained the procedure in securing a commitment from the Government?

Mr. CARSON. Yes, sir; that is right.

The CHAIRMAN. You may proceed.

Mr. CARSON. Well, that is about the extent of my first interview with these gentlemen.

Mr. SIMON. Who did they tell you McCormack was?

Mr. CARSON. Well, I can't say that any one ever directly told me, but I assumed he was an employee of Mr. Diggs.

Mr. SIMON. Did anybody ever say anything about his having any connection with the Government?

Mr. CARSON. I think Mr. McCormack told me he was a former official in the Government.

Mr. SIMON. Did he tell you what position he had with the Government?

Mr. CARSON. I believe he said he was Comptroller of the Currency.

Mr. SIMON. That he was former Comptroller of the Currency?

Mr. CARSON. Yes, sir. I beg your pardon, are you talking about McCormack?

Mr. SIMON. Yes.

Mr. CARSON. Oh, no. No. I misunderstood.

Mr. SIMON. Was McCormack supposed to have ever been connected with the Government?

Mr. CARSON. Not to my knowledge.

Mr. SIMON. Did they ever say he was a former Member of Congress?

Mr. CARSON. I don't believe so.

Mr. SIMON. What did he tell you that they could do for you?

Mr. CARSON. They said they could arrange the interim financing, the mortgage money; that by being Washington attorneys, they were familiar with the necessary steps in order to proceed with the awarding and construction of one of these projects.

Mr. SIMON. Did either of them say anything about having an ability to get a commitment or to help you get a commitment?

Mr. CARSON. I don't believe that was said to me in that fashion because after all, I wasn't going to build one of these things, or even be involved in it, other than—my part in the matter was that if I knew a contractor who would be interested in this, who was my customer, then the sponsoring contractor would be the person who would actually go into the matter.

Mr. SIMON. Did you agree that you were going to pay him \$5,000?

Mr. CARSON. Did I?

Mr. SIMON. Yes.

Mr. CARSON. No, sir.

Mr. SIMON. You and Mr. Hill?

Mr. CARSON. Well now, Mr. Hill's position and mine are entirely different. I didn't agree to give him anything and I didn't get anything and I wasn't supposed to.

My interest only would be if my contractor was successful in building one of these units.

Mr. SIMON. Weren't you and Mr. Hill together in this project?

Mr. CARSON. No.

Mr. SIMON. You weren't?

Mr. CARSON. No.

Mr. SIMON. Well, Mr. Hill, we'd better ask you the questions, then. Were you the one who was going to pay the \$5,000?

Mr. HILL. After Mr. Carson's return from Washington, he told us—in fact I had no knowledge at that time of the Wherry Act. He told us at that time that this was a proposition whereby a contractor, or a realtor could sponsor, and eventually own one of these housing projects.

Mr. SIMON. Without it costing him any money?

Mr. HILL. No, that wasn't necessarily mentioned.

Mr. SIMON. Of course anybody can sponsor any kind of project and anybody can own it if he has the money to pay for it.

Mr. HILL. That is entirely true.

However, we were entirely ignorant of the whole thing. We didn't know how it would be constructed and I didn't even know there was such a law.

We then later went to Washington and met Mr. McCormack.

My partner, myself and Mr. Carson met Mr. Diggs, and I believe Mr. Tarny at that date.

Mr. SIMON. What did they tell you?

Mr. HILL. That they were entirely familiar with the procedure of setting up the structure of such a thing and were entirely familiar with obtaining interim financing and mortgage loans in the necessary amounts and were familiar with setting up the proper brochure for submission.

Mr. SIMON. What else did they tell you?

Mr. HILL. Well, they told us that they had been successful before in setting these things up.

Mr. SIMON. Did they tell you what cases they had been successful in?

Mr. HILL. Well I am not entirely sure.

Mr. SIMON. What else did they tell you?

Mr. HILL. To be perfectly truthful with you, our contact with Mr. Diggs and Mr. Tarny wasn't too extensive.

Mr. SIMON. What did Mr. McCormack tell you?

Mr. HILL. He told us many things, among which that he was very optimistic about the thing and enthusiastic.

Mr. SIMON. What did he tell you?

Mr. HILL. That they were familiar with arranging them and could arrange them.

Mr. SIMON. Did he tell you anything else?

Mr. HILL. No, sir.

Mr. SIMON. Is that all he told you?

Mr. HILL. Well, I don't recall all of these things. I don't know.

Mr. SIMON. How many times did you talk to him?

Mr. HILL. Either 2 or 3, with Mr. McCormack.

Mr. SIMON. How long was each conversation?

Mr. HILL. Perhaps an hour or so.

Mr. SIMON. So you talked to him for 2 or 3 hours?

Mr. HILL. That is right.

Mr. SIMON. What did he tell you in the 2 or 3 hours?

Mr. HILL. Well, they mentioned several projects.

Mr. SIMON. What projects did they mention?

Mr. HILL. They mentioned 1 in the Midwest somewhere, and 1 in the Far West that were to be considered.

Mr. SIMON. What else did he tell you?

Mr. HILL. They told us that they had handled these matters for several other builders.

Mr. SIMON. Did he tell you who the builders were?

Mr. HILL. No, not entirely. They did show us some brochures and some plans of housing that had been developed by some of the other prospective builders.

Mr. SIMON. What else did he tell you?

Mr. HILL. I am not entirely sure I follow the line of your questioning.

Mr. SIMON. You had a conversation with him 2 or 3 times, about an hour each.

Just tell us what you told him.

The CHAIRMAN. Just repeat what you told us in executive session. You were under oath there as you are here.

If you would rather we introduce what you said in executive session, we can, but I don't think that is necessary.

Just tell us what you told us in executive session.

Mr. HILL. Well, for one thing, they told us about a project that was to be constructed at Indian Head, Md.

Mr. SIMON. Who is "they?"

Mr. HILL. Mr. McCormack, I believe.

Mr. SIMON. Where was this conversation?

Mr. HILL. I believe most of the conversations took place in Mr. Diggs' office.

The CHAIRMAN. That is Marshall Diggs?

Mr. HILL. Yes.

The CHAIRMAN. Do you remember the address of the office?

Mr. HILL. I think it was 1025 Connecticut.

Mr. SIMON. But the conversation was with McCormack?

Mr. HILL. Not entirely, but primarily so.

Mr. SIMON. Tell us what was said, now.

Mr. HILL. That was 4 years ago. My memory is rather vague.

The CHAIRMAN. Did McCormack tell you that Mr. Diggs was virtually the father of the Wherry Act?

Mr. HILL. No; by intimation he may have said many things.

The CHAIRMAN. And knew influential people connected with the Government and gave the definite impression that upon payment of a retainer to Diggs, they would almost certainly get a Wherry Act project?

Mr. HILL. I believe it was something like that.

The CHAIRMAN. You testified to that in executive session?

Mr. HILL. Well, I believe so.

Mr. SIMON. Why is your memory so good in executive session and so bad, today?

Mr. HILL. I have a copy of the executive session here.

Mr. SIMON. We do too.

The CHAIRMAN. Did he also give you the impression that McCormack was a former Member of Congress and that E. C. Bennett was a former Senator from West Virginia?

Mr. HILL. I don't remember testifying anything to that nature. This is supposed to be a copy of it, and I know that it isn't even in this copy.

Mr. SIMON. You paid them \$5,000, didn't you?

Mr. HILL. Yes.

Mr. SIMON. Did you get the \$5,000 back?

Mr. HILL. I got part of it back.

Mr. SIMON. How did you get it back?

Mr. HILL. About a little——

Mr. SIMON. You sued them, didn't you?

Mr. HILL. That is right. About a year later.

Mr. SIMON. Was the suit because you were welching on the deal, or because they promised you something they didn't deliver?

Mr. HILL. Because I didn't think they had delivered any service they had promised to do. There was no organization ever set up that I have ever found out about.

Mr. SIMON. You must have had some basis for bringing a lawsuit against them in which you got some of your money back, is that right?

Mr. HILL. That is right.

Mr. SIMON. What was the basis for that?

Mr. HILL. I thought I had paid for some services which I did not receive.

Mr. SIMON. What services did you think you had paid for?

Mr. HILL. Well, I thought there should have been a corporate setup obtained and I thought there should have been some mortgaging banking obtained, and I also thought there should have been some better arrangements made as to interim financing.

I knew we couldn't handle all of the financing, with the other business.

Mr. SIMON. Was that the only basis for your lawsuit to get your money back?

Mr. HILL. As far as I am concerned, it was.

Mr. SIMON. Is that the only basis you alleged in the complaint you filed?

Mr. HILL. The complaint was filed by an attorney.

Mr. SIMON. My question was whether that was the only basis that you alleged in the complaint you filed?

Mr. HILL. My attorney filed the complaint and I am not entirely familiar with it at present. I do have a copy of it.

Mr. SIMON. Did you ever see it?

Mr. HILL. I have a copy of it.

Mr. SIMON. Have you read it?

Mr. HILL. I have read it; yes.

Mr. SIMON. Is what you are testifying to this morning the only basis alleged in the complaint for bringing the suit?

Mr. HILL. I don't know that right now.

Mr. SIMON. You don't know that right now?

Mr. HILL. Do you have a copy of the complaint?

Mr. SIMON. Yes.

Mr. HILL. May I read it?

Mr. SIMON. As you know, it is quite a lengthy document. Would you like to come back this afternoon and read it between now and then?

Mr. HILL. No; not necessarily.

The CHAIRMAN. Mr. McCormack claims to be ill. Is Mr. Diggs present?

(No response.)

The CHAIRMAN. Is Mr. Diggs present?

(No response.)

The CHAIRMAN. I am going to suggest this, that we dismiss you at the moment, suggest that you read the testimony you gave in executive session, that you review this whole matter because all we want are the facts.

Mr. HILL. A moment ago you said that I testified in executive session to something which I do not remember, at all.

The CHAIRMAN. You may be right, I don't know.

All I have here is a memorandum made by Mr. Dinkins, before whom you testified, and you may well be right, I don't know. That is why we are going to dismiss you until 2 o'clock and give you a chance to read the executive session. We are going to read it, and then at that time we are going to hear you and Mr. Diggs. Mr. McCormack is evidently ill and not going to be here, but we will get him later.

This is quite a serious matter we are talking about and it involves not only yourself, but many other builders who paid \$5,000 to this outfit and got no money in return.

Mr. SIMON. Either you made charges which you shouldn't have made in the first place, or Mr. McCormack did some things he shouldn't and we feel we are entitled to know which it is.

The CHAIRMAN. As I said this morning you know, there has been pressure put on me in the last 24 hours by telephone calls, not to go into this matter, today, so it begins to look a little queer to me.

Mr. DINKINS. May I ask 1 or 2 questions, here?

The CHAIRMAN. You were the attorney on our staff who heard them on executive session. Proceed.

Mr. DINKINS. When you talked to Mr. McCormack about this Wherry Act matter, did he tell you that Mr. Diggs was his Washington lawyer and he would recommend him to you to handle this case?

Mr. HILL. I don't recall whether he ever told me he was a lawyer, or not. However, the office where we went to meet Mr. Diggs, was listed as a law office, I believe on a sign on the door, and of course it was my impression that, being a law office, that Mr. Diggs was a lawyer.

Mr. DINKINS. Did he also tell you that you, if you signed a contract with Mr. Diggs, the fee would be \$5,000?

The CHAIRMAN. You did sign a contract with Mr. Diggs?

Mr. HILL. That is right.

The CHAIRMAN. And you did pay him \$5,000?

Mr. HILL. That is right.

The CHAIRMAN. And later you sued him?

Mr. HILL. I instructed an attorney in Washington, here, since I thought that I had not received any of the services that they promised me, that I would like to get a return of that money.

Mr. SIMON. Of course, Mr. Hill, if it was merely a matter of setting up a corporation, a lawyer can do that in a half hour.

He wouldn't have to return the money for that.

Mr. HILL. That is what he should have done.

Mr. SIMON. You mean he preferred to return the money rather than take a half hour to set up the corporation?

Mr. HILL. I don't know that. We were told by Mr. Diggs, I believe, that he could arrange mortgage money and interim financing and that he would do so.

To the best of my knowledge that was never done.

Mr. SIMON. There was no occasion to render interim financing until you got a commitment, was there?

Mr. HILL. That is right.

Mr. SIMON. You never got a commitment, did you?

Mr. HILL. No. We prepared a brochure in accordance with their instructions and sent it to Washington, including some plans, I believe.

The CHAIRMAN. Then we are going to excuse you now and ask you to be back at 2 o'clock.

Mr. DINKINS. May I continue?

The CHAIRMAN. I am sorry. Go right ahead.

Mr. DINKINS. I believe when you testified in executive session you brought your attorney along with you, didn't you?

Mr. HILL. Sir?

Mr. DINKINS. Didn't you bring your attorney along with you when you testified?

Mr. HILL. No, sir; I did not. Just Mr. Carson and myself.

Mr. DINKINS. I wanted to be absolutely fair with you and I thought there might have been confusion between your situation and somebody else's, but since we are going to adjourn this matter until 2 o'clock, we can check the record on that.

Mr. CARSON. May I make a statement, please?

The CHAIRMAN. You may.

Mr. CARSON. I would like to say in the presence of Mr. Dinkins—you asked if we—you mentioned the name of a West Virginia—what was it, State senator, or someone?

That testimony did not occur during our interview and I would like to ask you to review our file as it is.

The CHAIRMAN. We will review your file and we will review the executive session and we will call on you again at 2 o'clock.

Mr. DINKINS. Senator, it is possible that this witness' testimony might have been confused with that of another.

The CHAIRMAN. Do you mean confused by you?

Mr. DINKINS. Yes, sir; and it should be straightened out.

The CHAIRMAN. We only want the facts, that is all, and we are not going to have anybody keep us from getting the facts. We are interested only in the facts; that is all.

You are excused until 2 o'clock.

The next witness will be Albert Small, of the Idaho Terrace.

Will you come forward, Mr. Small, please?

I am sorry, I forgot the Doctor.

Will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF DR. T. TAYLOE PERRY, CHEVY CHASE, MD.

Dr. PERRY. I do.

The CHAIRMAN. Will you please be seated and give your full name and address?

Dr. PERRY. Thoran Tayloe Perry. I live in Chevy Chase, Md., 4228 Leland Street, and my office is 1801 K.

The CHAIRMAN. You are a doctor?

Dr. PERRY. I am a physician; yes.

Mr. SIMON. Mr. Perry, for how long have you been treating Richard McCormack?

Dr. PERRY. I first saw him on the 10th of October, last year.

Mr. SIMON. October 10, 1953?

Dr. PERRY. That is correct.

Mr. SIMON. And how many times have you seen him between then and now?

Dr. PERRY. I would say 10 or 12 times.

Mr. SIMON. What have you treated him for?

Dr. PERRY. I? Well, he has high blood pressure which has affected his heart.

When I first saw him, he was a bit overweight.

Mr. SIMON. Will you tell us what had been wrong with him?

Dr. PERRY. High blood pressure, which has affected his heart. If you want the technical details of that, I can give it. Mild diabetes, pulmonary emphysema, and obesity.

Mr. SIMON. By "obesity," you mean as he is just a fat man?

Dr. PERRY. He is overweight.

The CHAIRMAN. Don't talk like that.

Dr. PERRY. I have reduced him a bit since then.

The CHAIRMAN. When did you see him last?

Dr. PERRY. Tuesday, the 5th of October.

The CHAIRMAN. And what was the difference in his condition on Tuesday from that which had prevailed over the last year?

Dr. PERRY. Well, he seemed quite agitated. He was suffering from a severe migraine headache at the time I saw him.

The CHAIRMAN. That was on Tuesday of this week?

Dr. PERRY. Yes, sir.

The CHAIRMAN. This is Friday.

Mr. SIMON. Have you seen him since Tuesday?

Dr. PERRY. I have not.

Mr. SIMON. You have not?

Dr. PERRY. No.

Mr. SIMON. Do you know what his condition is today?

Dr. PERRY. Only by telephone. Not as of today, no. I talked to his wife yesterday.

Mr. SIMON. He walked into your office on Tuesday?

Dr. PERRY. That is correct.

Mr. SIMON. And he walked out?

Dr. PERRY. That is correct.

Mr. SIMON. What was his condition? He was agitated?

Dr. PERRY. I would say he was in a very nervous state. He didn't tell me about this. I didn't know he was subpoenaed to appear before this committee.

Mr. SIMON. Is the state of his nervousness such that it would impair his health to appear before this committee?

Dr. PERRY. With this high pressure he has, I felt he should go home and rest. I gave him some demoral which is similar to morphine, in order to ease his headache and his wife called me yesterday and said he was still highly nervous and didn't sleep, so we sent him some barbiturates to try to quiet him down.

Mr. SIMON. Would the fact that he might have received \$27,500 which he forgot to include in his income-tax return account for nervousness?

Dr. PERRY. I suppose that would make almost anyone nervous.

Mr. SIMON. I ask you again whether his nervousness is such, whether appearing before this committee would impair his health?

Dr. PERRY. Well, I think it would.

Mr. SIMON. To what extent?

Dr. PERRY. At this particular time—when I saw him last, I will put it that way.

Mr. SIMON. Well, Doctor, how can you say on Friday that his appearance would impair his health when you saw him for the last time on Tuesday and he walked in and walked out of your office?

Dr. PERRY. I was just going on the basis of what my examination showed Tuesday, and knowing his nervous background and so forth. I thought that—due to the fact that his wife told me yesterday that he was still highly nervous and couldn't sleep, that it might be bad for him, and it would put an added strain on his heart.

Mr. SIMON. Are you basing your medical opinion on what his wife told you over the telephone?

Dr. PERRY. Well, in part, but also what I know about the man, his physical makeup, his mental makeup, and so on.

Mr. SIMON. In your opinion, how long will it be before he can appear before this committee without impairing his health?

Dr. PERRY. I couldn't answer that question without seeing him.

Mr. SIMON. Is it a matter of a day or two, a month or two, or a year or two?

Dr. PERRY. No, I just thought it was a matter of several days.

Mr. SIMON. A matter of several days?

Dr. PERRY. Yes, when I saw him last.

In other words, I thought he was quite upset, and that we could get him quieted down.

Mr. SIMON. Do you think that his being upset could be ended short of the committee saying that they weren't going to call him?

Dr. PERRY. Without seeing him again, I wouldn't like to express an opinion about that.

The CHAIRMAN. It is very important that he appear before this committee, Doctor, because he was paid by Mr. Diggs, \$27,500, as we understand it, which he did not include in his income tax. He claims that it was a loan and Mr. Diggs, if I understand the testimony correctly, claims that it was not, and it is very important that we have him as a witness.

Now, we certainly don't want to call him if it is going to impair his health, but we will have to call him, either today, or later.

Dr. PERRY. Well, I would like to see him again.

The CHAIRMAN. Could you go and see him and come back, say, at 3 o'clock, and either bring him with you, or come back and tell us about when you think he can testify?

At our expense?

Dr. PERRY. Well, I have a whole office full of patients sitting up there that I don't know what to do about.

This is a very unexpected thing as far as I am concerned. I wasn't prepared.

The CHAIRMAN. You understand we didn't make the situation. Mr. McCormack made it.

Mr. SIMON. You did give him a certificate; didn't you?

Dr. PERRY. I wrote a note yesterday that I thought he was in such a condition.

The CHAIRMAN. Let me see the certificate, please.

This was written on October 7:

This is to certify that Richard McCormack is under my professional care and in my opinion is too ill physically and mentally to testify or appear in any courts or hearings at the present time.

(Signed) T. TAYLOR PERRY, M. D.

Thank you very much, Doctor.

Mr. Attorney, what is your opinion now, as the attorney for this gentleman? When would you like for him to appear?

Mr. RACIOPPI. I would be delighted to bring him in as soon as he is well, which will probably be the first of the week.

The CHAIRMAN. But he cannot appear here today?

Mr. RACIOPPI. I am not a physician, sir.

Mr. SIMON. His wife seems to be the only one who knows.

The CHAIRMAN. I don't think we have sufficient medical testimony here that warrants this gentleman not appearing this afternoon. If you disagree with that, then we will get a Government doctor, and you get a doctor, and we will send them out to examine this gentleman this afternoon. If, in the opinion of both of those doctors he should not appear, then we will accept it.

Otherwise, we will have him appear tomorrow. We will hold this hearing over until tomorrow.

Mr. RACIOPPI. I will be delighted to get a physician if one is available and if the Government will get one, too.

The CHAIRMAN. We will certainly get one.

Will you gentlemen work that out with his attorney, outside, and get a doctor.

We are having trouble with witnesses this morning. I guess they figure this is the last day. They are going to be fooled.

We had two witnesses here, we had Mr. Small; didn't we?

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?

#### TESTIMONY OF ALBERT SMALL, IDAHO TERRACE APARTMENTS, WASHINGTON, D. C.

Mr. SMALL. I do.

The CHAIRMAN. What is your full name, please?

Mr. SMALL. Albert Small.

Mr. SIMON. Your address?

Mr. SMALL. 3245 Ellicott Street NW.

Mr. SIMON. You and your family and the Stern family own the Idaho Terrace Apartments?

Mr. SMALL. We do.

Mr. SIMON. And where is that located?

Mr. SMALL. 3040 Idaho Avenue NW.

Mr. SIMON. Is that at the corner of Idaho and Cathedral Avenues?

Mr. SMALL. That is right, sir.

Mr. SIMON. What is the capital stock of Idaho Terrace, Inc.?

Mr. SMALL. About \$1,200.

- Mr. SIMON. What was the amount of the FHA mortgage?
- Mr. SMALL. \$1,750,000.
- Mr. SIMON. Was there a premium paid on the mortgage?
- Mr. SMALL. Yes, sir.
- Mr. SIMON. What was the premium?
- Mr. SMALL. One-half point.
- Mr. SIMON. That would be about \$8,000?
- Mr. SMALL. \$8,750, I think.
- Mr. SIMON. Who built the building?
- Mr. SMALL. The Idaho Terrace Building Corp.
- Mr. SIMON. Who are the stockholders of Idaho Terrace Building Corp., the same?
- Mr. SMALL. The same stockholders; yes, sir.
- Mr. SIMON. Was that also nominal capital stock?
- Mr. SMALL. Yes, sir.
- Mr. SIMON. What was the actual cost of construction?
- Mr. SMALL. I think I gave that in executive session. I don't know whether I have it here or not.
- Mr. SIMON. The figure you gave was \$1,573,287.
- Mr. SMALL. That is approximately right; yes, sir.
- Mr. SIMON. Of course we don't know, Mr. Small.
- Mr. SMALL. I believe those are the costs.
- Mr. SIMON. That is the total cost?
- Mr. SMALL. Yes.
- Mr. SIMON. Including financing charges and everything else?
- Mr. SMALL. Yes, sir.
- Mr. SIMON. It does not include the cost of the land, because this is built on leased land.
- Mr. SMALL. That is right.
- Mr. SIMON. So therefore, the total costs were \$184,750 less than the mortgage proceeds?
- Mr. SMALL. Do you mean including the \$8,750?
- Mr. SIMON. Yes.
- Mr. SMALL. My figure is a little different than that.
- Mr. SIMON. And if you add the mortgage premium it makes \$184,750?
- Mr. SMALL. That is right.
- Mr. SIMON. Thank you, sir.
- The CHAIRMAN. Thank you very much, Mr. Small.
- We are now going to recess until 2 o'clock and we will have a number of witnesses that we thought we were going to have this morning, we hope.
- (Whereupon, at 12:05 p. m., the hearing was recessed, to reconvene at 2 p. m., the same day.)

## AFTERNOON SESSION

(Whereupon the committee reconvened, pursuant to recess, at 2:05 p. m.)

The CHAIRMAN. Is Mr. Stuckey present?

Mr. STUCKEY. Yes, sir.

The CHAIRMAN. We won't want you for possibly an hour because we are now in executive session with Mr. Chaite, but you remain right in the room, if you will, please.

I want to make this statement: We had a little trouble this morning with witnesses as you know and things got a little confused. I made the statement, something about an Evening Star representative picking stuff up as we were talking and I find now I was in error—that Mr. Simon, he did discuss the matter with him. I want the record to show that, Mr. Douglas. There were a lot of us up here discussing a lot of things and I was in error.

We always want to be just as factual and get the truth if we can.

I want to now put into the record something to show some of the problems we have involved in these hearings.

I have a wire here that I received on October 5, from Louis Lesser. He was the gentleman, you will remember, we talked about this morning from California who failed to show up and we receive two telegrams from doctors saying that he couldn't be here.

He wired me on October 5:

I have been subpoenaed to be before your committee at October 8, 11 a. m. The Jewish holiday occurs on the 7th. I observe this holiday every year with my parents and children and will do so this year. By reason thereof it will be impossible for me to be in Washington at the time designated. Furthermore, I have never participated at all in any 608, 213, or title I ventures and could, therefore, be of no immediate assistance to your committee.

I just read that to show you how these gentlemen try to confuse the issue. Of course, he has never been identified with any section 608 or 213 or title I. We want him for the Wherry Act.

I am sure a deposition from me taken here would serve your purposes and the ends of justice as well as compelling me to travel across the continent on the most important Jewish holiday of the year. I, therefore, respectfully suggest a continuance beyond the 8th and await your reply.

I wired him the same day.

Re your telegram of October 5 regret to advise you you must appear before this committee Friday, October 8. Transcontinental planes will permit you to leave Los Angeles after church services Thursday. Must remind you that your trip to Europe, after you knew of our desire to interrogate you, accounts for the necessity of your being present at this time rather than 2 months ago.

He skipped off to Europe, you see. Signed by myself.

In that wire on Tuesday, he doesn't say a word about being sick. Not the first word about it. Now, we have two telegrams in here this morning from doctors saying that he is sick and unable to appear.

So, without objection, I make this a part of the record, that wire and my answer. Also a memorandum from Mr. John Hancock, a member of our staff and a letter from Louis Lesser Enterprises, Ltd., as a part of the record and again to say we have now subpoenaed Mr. Lesser to appear on November 9, that we never wanted him for section 608's or title I's or 213's; we want him for the Wherry Act and he knew it because we had a conference with him and discussed it with him.

For the information of you people, one of the Wherry Acts is in Indianapolis, Ind., Fort Benjamin Harrison.

(The documents referred to follow:)

Senator HOMER E. CAPEHART,  
Care Committee on Banking and Currency,  
Senate Office Building:

I have been subpoenaed to appear before your committee on October 8, 1954, at 11 a. m. The Jewish holiday occurs on the 7th. I observe this holiday every year with my parents and children and will do so this year. By reason thereof

it is impossible for me to be in Washington on Friday at time designated. Furthermore, I have never participated at all in any title 608 or 213 or title I ventures and could therefore be of no immediate assistance to your committee. I am sure a deposition from me taken here would serve your purposes and the ends of justice as well as compelling me to travel across the continent on the most important Jewish holiday of the year. I therefore respectfully request a reasonable continuance beyond the 8th and await your immediate reply.

LOUIS LESSER.

LOUIS LESSER,  
*Beverly Hills, Calif.:*

Re your telegram October 5, 1954. Regret to advise you must appear before this committee Friday, October 8, 1954. Transcontinental planes will permit you to leave Los Angeles after your church services Thursday. Must remind you that your trip to Europe after you knew of our desire to interrogate you accounts for the necessity of your being present at this time rather than 2 months ago.

Senator HOMER E. CAPEHART,  
*Senate Banking and Currency Committee,*  
*FHA Investigation.*

Memorandum

To: John Hancock.

From: James Walter.

Subject: Lou Lesser, Beverly Hills, Calif.

Lesser will appear before the committee, room F-41, on Saturday, August 7, at 12 noon.

In a recent memo from you, it was suggested that this man be brought in on Thursday or Friday of next week. However, on contacting Lesser at his Beverly Hills home last night, he explained that he had made arrangements for he and his family to leave for a trip to Europe via TWA to New York, arriving early Saturday morning, leaving for overseas on Sunday. Farrell has agreed to fly down from New York on Saturday morning following his arrival from the coast.

JAMES H. WALTER,  
*Committee on Banking and Currency,*  
*Washington, D. C.*

DEAR SIR: I have had reservations to fly to Europe with my wife for almost a year.

Due to the press of business which I must clean up before I leave, I find it impossible to come to Washington at this time to testify.

I expect to return from said trip in September at which time I will comply with your request, if you still want me to testify.

Very truly yours,

(Signed) Louis Lesser,  
(Typed) LOUIS LESSER.

Mr. SIMON. Senator, in Los Angeles, two people testified about some transactions involving a man in Alaska named Cash Cole, and Mr. Cole has written a letter from Fairbanks, giving his version of the transaction which he would like to incorporate in the record.

The CHAIRMAN. Without objection, the letter from Mr. Cash Cole—and I notice you gentlemen are smiling—but that is actually his name, C-a-s-h, Cash.

Without objection, the letter will be made a part of the record.  
(The letter referred to follows:)

FAIRVIEW MANOR, *Building 2-A-8, September 20, 1954.*

Mr. WILLIAM SIMON,  
*General Counsel, Washington 25, D. C.*

DEAR MR. SIMON: I am in receipt of the copy of your letter, dated September 2, addressed to Warren A. Taylor.

Unless letters sent to Alaska are air mailed they come by boat. Your letter arrived today, just 18 days from the day it was written, so your hearings in both New Orleans and Chicago are over.

It didn't seem fair to me to hold a hearing on a transaction involving 3 people, and just let 2 of them testify, and have the inference broadcasted that my name was given as the go-between, without a chance to speak in my own behalf.

This is the story :

Kadow told me that he had a deal for me, with Staples, to get a commitment on 300 houses at Goose Lake, Anchorage, for \$100 per house, and that he expected a cut on the deal if it went through. He advised me to go to Staples' house that evening and he would verify the deal. Kadow at this time was still in the Government service.

My wife and I went to Staples' house, and he asked me if Kadow had told me about the deal, and I said "yes," and he said the \$30,000 would have to be cash. I had some plans in his office at the time with a view to getting a temporary permit.

I told him I was not interested in any commitment that I had to pay for. I thought that if I presented a proposal of merit it would either be granted or refused upon that basis, and that if it wasn't I would withdraw my application.

The next morning Mr. Staples called me at the hotel, and told me he would like to have me come up to his office, which I did

His first remark to me after I had entered his office was, "Well, I got your friend Kadow. I had a dictaphone recording of the whole proposition he made to me about your application, and have turned it in to the FBI. He has been trying to run my office ever since I arrived here."

Later that morning, after I had returned to the hotel, Kadow came up to the room with a typewritten statement of about a page and a half.

The statement recounted that Kadow had never mentioned the deal to me, and the first I knew of it was when Staples brought it up the night I was at his house.

I refused to sign the statement, and told him I had warned him that I wouldn't have anything to do with any deal he was fixing.

We had been friendly with the family up until this time, but not afterward.

My comment to him when I refused to sign the statement he had made out was, "You will wind up in jail if you don't quit making deals."

His testimony that it was 6 months before anything was reported by him or Staples is not true. Kadow told me he was going to beat Staples to the FBI, and give them his version of the transaction as he had it in the statement he wanted me to sign that day.

I would appreciate a certified copy of that part of the record where Staples testified that Kadow said I would be the go-between.

If I can be of any further help, please call on me.

Yours very truly,

CASH COLE,  
Fairbanks, Alaska.

P. S.—Would you please send me Mr. Staples' address?

The CHAIRMAN. Is Mr. Samuel Block present?

Will you come up, please, Mr. Block?

Mr. Block, will you be sworn: Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

### TESTIMONY OF SAMUEL BLOCK, WASHINGTON, D. C.

Mr. BLOCK. I do.

The CHAIRMAN. Thank you, sir. Will you please be seated and give your full name and address and your business to the reporter for the official record, if you will, please.

Mr. BLOCK. Samuel Block, 4925 North Capitol Street, Washington, D. C.

The CHAIRMAN. What is your business?

Mr. BLOCK. I am a public-relations consultant.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Block, in the 6-month period, or 5-month period from March 1950, through August 1950, did the Woodner Co. pay you \$10,000?

Mr. BLOCK. Will you repeat that question, please?

Mr. SIMON. Yes.

In the 6-month period from March 1950 through August 1950 did the Woodner Co. pay you \$10,000?

Mr. BLOCK. Yes, sir.

Mr. SIMON. What was that for?

Mr. BLOCK. Public-relations consultant.

Mr. SIMON. What did you do for the \$10,000?

Mr. BLOCK. I was asked by Mr. Woodner to be available to him at any time that he might need me. He wanted me to be informed as to what legislation was being enacted on the Hill.

Mr. SIMON. On what subjects?

Mr. BLOCK. Housing, of course.

Mr. SIMON. Was that all?

Mr. BLOCK. That was about it.

Mr. SIMON. He wanted you to be available?

The CHAIRMAN. Did he use your services after he hired you?

Mr. BLOCK. No; he did not.

Mr. SIMON. Did you ever write him any letter?

Mr. BLOCK. No; I did not.

Mr. SIMON. Did you ever actually do anything for him?

Mr. BLOCK. Well, we had many consultations.

Mr. SIMON. Where were these consultations?

Mr. BLOCK. In his office.

Mr. SIMON. What did you discuss?

Mr. BLOCK. We discussed legislation.

Mr. SIMON. What legislation?

Mr. BLOCK. Legislation that might be coming up and that I thought might be coming up or he thought might be coming up.

Mr. SIMON. What legislation?

Mr. BLOCK. With regard to housing.

Mr. SIMON. What legislation did you think was coming up with respect to housing?

Mr. BLOCK. I don't remember, sir.

Mr. SIMON. Did you ever make any memorandum of your conversations with him?

Mr. BLOCK. No; I did not.

Mr. SIMON. Do you keep files on your clients?

Mr. BLOCK. Yes.

Mr. SIMON. Do you have a file on the Woodner Co.?

Mr. BLOCK. No, sir.

Mr. SIMON. You don't have any file at all?

Mr. BLOCK. No, sir.

Mr. SIMON. Did you ever have a file on it?

Mr. BLOCK. No, sir.

Mr. SIMON. Isn't that unusual not to have a file on a client?

Mr. BLOCK. Well, perhaps, but I don't think it was unusual in this case.

Mr. SIMON. Why?

Mr. BLOCK. I was on a trial and error situation with him.

Mr. SIMON. Whose trial and whose error?

Mr. BLOCK. My trial and——

Mr. SIMON. And his error?

Mr. BLOCK. My error.

The CHAIRMAN. What was that? I was talking to Senator Beall. What was the question?

Mr. BLOCK. My trial and my error.

The CHAIRMAN. Are there any further questions?

Mr. SIMON. No, sir.

The CHAIRMAN. Thank you very much, Mr. Block.

Our next witness will be Dr. Samuel Dewey Gottlieb.

Will you come forward, please, Doctor?

Will you be sworn please? Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF DR. SAMUEL DEWEY GOTTLIEB, DISTRICT HEIGHTS APARTMENT, DISTRICT HEIGHTS, MD., ACCOMPANIED BY THOMAS S. JACKSON AND MARTIN R. FAIN, ACCOUNTANTS**

Dr. GOTTLIEB. I do.

The CHAIRMAN. Thank you, sir. Will you please be seated and give your full name and address to the reporter?

The gentlemen with you are your lawyers or accountants?

Dr. GOTTLIEB. Yes, sir. Mr. Jackson and Mr. Fain.

The CHAIRMAN. Give your full name and address to the reporter.

Dr. GOTTLIEB. My name is S. Dewey Gottlieb. I live at 2500 Q Street NW., Washington, D. C.

Mr. SIMON. Are you a physician?

Dr. GOTTLIEB. No, sir; I am a dentist.

Mr. SIMON. Do you have your office in the District?

Dr. GOTTLIEB. I haven't been practicing since 1938 or 1939.

Mr. SIMON. Are you the builder of the District Heights Apartment project?

Dr. GOTTLIEB. It is a corporation in which I was a majority stockholder.

Mr. SIMON. Where is the District Heights Apartment project located?

Dr. GOTTLIEB. It is off of Marlboro Pike in the town of District Heights.

Mr. SIMON. Is that in nearby Maryland?

Dr. GOTTLIEB. Yes.

Mr. SIMON. Were there five sections to the project?

Dr. GOTTLIEB. I think you could say there were five sections; yes, sir.

Mr. SIMON. There were five corporations; were there not?

Dr. GOTTLIEB. No; there were four corporations.

Mr. SIMON. What were the names of those corporations?

Dr. GOTTLIEB. District Heights Section A—this is to the best of my recollection—District Heights Section A and B were closed as one corporation.

Mr. SIMON. And C, D, and E?

Dr. GOTTLIEB. C was another corporation. D-E was a third corporation, and F-G was the fourth corporation.

Mr. SIMON. What was the capital stock of each of those four corporations?

Dr. GOTTLIEB. I believe I gave a statement to the committee explaining that.

The CHAIRMAN. We would like to know now, please.

Dr. GOTTLIEB. Could I refresh my recollection, up there, because they were a little different in each one.

Mr. SIMON. Do you know what the total was of all four of them?

Dr. GOTTLIEB. No, I don't know exactly to the dollar.

Mr. SIMON. What is your best recollection?

Dr. GOTTLIEB. Well, in addition to the preferred stock of FHA—

Mr. SIMON. I am just asking for the common stock, now.

Dr. GOTTLIEB. Well, some of it was preferred stock.

Mr. SIMON. Well, the common stock was how much?

Dr. GOTTLIEB. It was \$900 and \$1,000 on each of the corporations, and which one was \$900 and which one was \$1,000 I don't recall, now.

The CHAIRMAN. One was \$900 and the other was \$1,000?

Dr. GOTTLIEB. To the best of my recollection.

The CHAIRMAN. Both of them then were under \$1,900?

Dr. GOTTLIEB. All four corporations were in the neighborhood of either \$4,000, or \$3,900.

The CHAIRMAN. And the capital common stock was either \$3,900 or \$4,000, in the four corporations.

At the rate of \$1,000 for three and \$100 for one.

Mr. SIMON. You had preferred stock which was redeemed out of the mortgage proceeds.

Dr. GOTTLIEB. No, sir.

Mr. SIMON. Is that still outstanding?

Dr. GOTTLIEB. There never was any, except the FHA.

Mr. SIMON. The FHA, \$100 preferred stock?

Dr. GOTTLIEB. That's right.

Mr. SIMON. Except for the FHA \$100 preferred stock, the only capital stock here was either \$3,900 or \$4,000?

Dr. GOTTLIEB. To the best of my recollection, yes, sir.

Mr. SIMON. What was the total mortgage commitment on the four corporations?

Dr. GOTTLIEB. Mr. Simon, I was asked to break this down in an executive session and I broke it down. Now, I'll have to add it up.

Mr. SIMON. Give it to us broken down and we will add it up for you.

Dr. GOTTLIEB. The final commitment on Section A was \$514,000.

Mr. SIMON. \$914,000 on A?

Dr. GOTTLIEB. No, I didn't say \$914,000 on A.

Mr. SIMON. What was it?

Dr. GOTTLIEB. \$514,000.

Mr. SIMON. What is the next one?

Dr. GOTTLIEB. B was \$416,000.

C was \$829,700.

D-E was \$1,644,200. That was D-E. They were counted as one.

And F-G was \$2,393,000.

Mr. SIMON. Is that the total?

Dr. GOTTLIEB. That is the total, if added. That would be the total of all commitments.

Mr. SIMON. \$5,796,000.

Dr. GOTTLIEB. If that is correct addition, that is what it would be.

Mr. SIMON. Who built these buildings?

Dr. GOTTLIEB. S. F. & G., Inc.

Mr. SIMON. Were the stockholders of S. F. & G. the same people who were the stockholders of District Heights?

Dr. GOTTLIEB. Yes, sir.

Mr. SIMON. What was the actual cost of construction, of S. F. & G.?

Dr. GOTTLIEB. I was asked to bring that broken down, and I have that broken down.

The CHAIRMAN. You give us the figures and we will add them up.

You don't have an accountant there with you who could add them up, do you?

Dr. GOTTLIEB. No; I don't. These figures you have.

The CHAIRMAN. We have never had a witness in public session that we haven't had in executive session. We are now reporting to the people.

Dr. GOTTLIEB. The cost of construction, meaning the total cost, less land, on A, was \$419,856.84. Did I give that, \$419,856.84?

The CHAIRMAN. That's right.

Dr. GOTTLIEB. Now, all these figures which are in front of me and which were made up by an accountant, I am reading off to you, Mr. Simon.

Mr. SIMON. In other words, you are telling us you don't know whether they are accurate or not?

Dr. GOTTLIEB. I assume them to be accurate, but they were made by a certified public accountant and I——

Mr. SIMON. Well, Doctor, isn't it true that the total cost of these projects was \$1 million less than the mortgage?

Dr. GOTTLIEB. That's right.

Mr. SIMON. Then we can save time. The mortgages were roughly \$5½ million and the total costs were roughly \$4½ million, and when the project was over, S. F. & G. Co. had \$1 million cash left over.

Dr. GOTTLIEB. Or assets equal to that.

Mr. SIMON. Did S. F. & G. file a consolidated tax return?

Dr. GOTTLIEB. Yes, sir.

Mr. SIMON. Therefore, you paid no income tax on the million dollars?

Dr. GOTTLIEB. That's right, sir.

Mr. SIMON. Now, the assets of S. F. & G., this \$1 million windfall that was left over, have been invested, have they not?

Dr. GOTTLIEB. Yes, sir.

Mr. SIMON. Has part of it been invested in a string of racehorses?

Dr. GOTTLIEB. At one time, sir.

Mr. SIMON. \$90,000 went for racehorses in 1 year?

Dr. GOTTLIEB. I can't recall the exact amount, but you are close.

Mr. SIMON. Did those horses win or lose?

Dr. GOTTLIEB. I think I answered that before, that when purchased they were pretty good, but they broke down.

Mr. SIMON. Did S. F. & G. invest more of that money in a yacht?

Dr. GOTTLIEB. Well, it bought a boat.

Mr. SIMON. How big a boat?

Dr. GOTTLIEB. A 39-foot boat.

Mr. SIMON. A "39-foot sea-going cruiser" it says here, is that right?

Dr. GOTTLIEB. Who says that?

Mr. SIMON. That is what it says on my memorandum. A "39-foot sea-going cruiser." Is that wrong?

Dr. GOTTLIEB. I would hate to go on the ocean with it.

The CHAIRMAN. How much did it cost?

Dr. GOTTLIEB. \$12,000.

Mr. SIMON. Was that boat used to entertain the jockeys, stewards, and other people?

Dr. GOTTLIEB. No, not stewards. Jockeys, trainers, and the like of that.

Mr. SIMON. How well acquainted were you with Clyde Powell?

Dr. GOTTLIEB. As a Government official, I am slightly acquainted with Mr. Powell?

Mr. SIMON. Are you a Government official?

Dr. GOTTLIEB. Knowing him to be a Government official.

Mr. SIMON. Did you on several occasions have troubles with the project, in which you had to go to Mr. Powell for his help?

Dr. GOTTLIEB. I don't know whether I had troubles with the project in which I had to go to him for his help.

Mr. SIMON. Well, in executive session, didn't you acknowledge that on at least three occasions you consulted with Clyde Powell in connection with difficulties which had arisen in the District Heights project?

Dr. GOTTLIEB. That's right.

Mr. SIMON. And Clyde Powell was a reasonably good friend of yours; wasn't he?

Dr. GOTTLIEB. No.

Mr. SIMON. Didn't he once visit you at your apartment for 4 hours?

Dr. GOTTLIEB. Yes, sir.

Mr. SIMON. Well, that wouldn't make him exactly a stranger, would it?

Dr. GOTTLIEB. Well, the circumstances of that visit were pretty well gone into.

Mr. SIMON. They were?

Dr. GOTTLIEB. Yes, sir.

Mr. SIMON. What were the circumstances of the visit?

Dr. GOTTLIEB. It was an accidental meeting in an elevator in a building in which we both lived.

Mr. SIMON. You and he lived in the same building?

Dr. GOTTLIEB. For a period of about 3 months, but I didn't know it until I met him in the elevator.

Mr. SIMON. Then he came to your apartment?

Dr. GOTTLIEB. Well, I met him in the elevator and I naturally invited him to my apartment for a drink.

The CHAIRMAN. What building was that?

Dr. GOTTLIEB. 2500 Q Street.

The CHAIRMAN. I thought Powell lived in the Wardman Park.

Mr. SIMON. For 3 months he had an apartment at 2500 Q Street.

The CHAIRMAN. What year?

Dr. GOTTLIEB. This had to be sometime after May 1950. It could have been in the late fall, 1950.

Mr. SIMON. At any rate, you met him in the elevator and he came in and spent 4 hours in your apartment?

Dr. GOTTLIEB. That's right.

Mr. SIMON. That wasn't very casual; was it?

Dr. GOTTLIEB. Well, I would say it was casual.

Mr. SIMON. Did you and Powell ever do any horserace betting together?

Dr. GOTTLIEB. No, sir.

Mr. SIMON. Are you sure of that?

Dr. GOTTLIEB. Yes, sir.

Mr. SIMON. I take it that, as in executive session you will again categorically deny any gifts, loans, or gratuities to Clyde Powell?

Dr. GOTTLIEB. Yes, sir.

The CHAIRMAN. Or any other governmental official or employee.

Dr. GOTTLIEB. Yes, sir. Except Christmas gifts.

The CHAIRMAN. That seems to have happened for everybody. They must have gotten a lot of Christmas gifts, these employees.

Dr. GOTTLIEB. I wasn't there.

The CHAIRMAN. They got them from all the builders.

But they were small gifts.

Mr. SIMON. Now, among the problems you had was after you had A, B, and C under way, FHA rejected D, E, F, and G; didn't they?

Dr. GOTTLIEB. No, sir.

Mr. SIMON. Didn't one of your trips to see Powell involve a rejection by FHA, of sections D, E, F, and G?

Dr. GOTTLIEB. No, sir.

Mr. SIMON. What were the three occasions of your going to see Powell?

Dr. GOTTLIEB. I went to see Mr. Powell—the act expired in March—I hope you won't hold me to the exact date, but I'll say March 1, 1950.

Mr. SIMON. That's right.

Dr. GOTTLIEB. And my application had been on file with the FHA since December 1949, on D, E, and F-G, since January 1949.

I went to see Mr. Powell to see what possibilities there were of getting the local office to process these places before the expiration of the act and before the funds which were authorized for assurance ran out.

Mr. SIMON. Was he helpful to you?

Dr. GOTTLIEB. No, sir.

Mr. SIMON. You got them processed in any event.

Dr. GOTTLIEB. Not through Mr. Powell.

Mr. SIMON. You didn't?

Dr. GOTTLIEB. No, sir.

Mr. SIMON. What were the other two occasions you went to see him?

Dr. GOTTLIEB. The next occasion that I recall was in connection with the turn-down of F-G. Now, you must remember you asked me about D-E, and F-G.

Mr. SIMON. It was just F-G that were turned down?

Dr. GOTTLIEB. That's right. Which came to me by letter, on February 28. I went to see him about that.

Mr. SIMON. Did he help you on that?

Dr. GOTTLIEB. No, sir.

Mr. SIMON. You got that reversed though; didn't you?

Dr. GOTTLIEB. I don't understand the question.

Mr. SIMON. Well, F-G was first turned down and subsequently allowed?

Dr. GOTTLIEB. Yes, sir.

Mr. SIMON. Then you got it reversed; didn't you?

Dr. GOTTLIEB. That's right. I got the F-G—

Mr. SIMON. Reversed.

Now, who did that for you?

Dr. GOTTLIEB. Well, that was a long process.

Mr. SIMON. At any rate, your testimony is that you got this million dollar windfall completely without Clyde Powell's help.

Dr. GOTTLIEB. Exactly.

The CHAIRMAN. Had you ever been in the building business before you built this project?

Dr. GOTTLIEB. Yes, sir.

The CHAIRMAN. What did you build?

Dr. GOTTLIEB. I built starting in 1935. I built houses in Montgomery County and what is now called Glenmount.

The CHAIRMAN. Under FHA mortgages?

Dr. GOTTLIEB. Starting out under conventional. I built both conventional and FHA and I built five or six hundred houses.

The CHAIRMAN. Thank you very much, Doctor.

Our next witness will be Mr. Marshall Diggs.

Mr. Marshall Diggs, please.

(No response.)

The CHAIRMAN. Wasn't he subpoenaed? Is there anyone here representing Marshall Diggs, a lawyer?

(No response.)

The CHAIRMAN. We'll give him until 3 o'clock.

Will some member of our staff please call Mr. Diggs? He is a lawyer, is he not, over in town?

We certainly have our problems with witnesses today, don't we?

Mr. Stuckey, will you please come forward. Will you be sworn, Mr. Stuckey.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

#### TESTIMONY OF J. RICHARD STUCKEY, ALEXANDRIA, VA.

Mr. STUCKEY. I do.

The CHAIRMAN. Will you please be seated and give your full name and address to the reporter.

Mr. STUCKEY. J. Richard Stuckey, 830 South Pitt Street, Alexandria.

The CHAIRMAN. Who are you working for at the present time?

Mr. STUCKEY. I am presently employed by the Howard Johnson Co.

The CHAIRMAN. In what capacity?

Mr. STUCKEY. Restaurant manager, sir.

The CHAIRMAN. Which restaurant? Which branch?

Mr. STUCKEY. We are in the process of opening a new store at 13th and E NW.

The CHAIRMAN. Were you formerly employed by Mr. Woodner?

Mr. STUCKEY. That's correct, sir; from September 1947, to, I believe, the middle of December 1951.

The CHAIRMAN. In what capacity?

Mr. STUCKEY. I started to work for Mr. Woodner in his office when he first started operations here in Washington, as office boy, and in the

process of the organization growing, I worked myself up to Mr. W. F. Holiday's assistant.

The CHAIRMAN. What was the responsibility of Mr. Holiday?

Mr. STUCKEY. He was Mr. Woodner's—well, I guess you would call him right-hand man, here in Washington.

The CHAIRMAN. And you worked your way up to be his assistant, Mr. Holiday's assistant?

Mr. STUCKEY. That's correct.

The CHAIRMAN. What were some of your duties in that capacity?

Mr. STUCKEY. Securing of building permits, liaison between the municipal government, securing building permits, leg work between local and national FHA headquarters, and various assignments to the construction jobs, and other projects in other cities.

The CHAIRMAN. Did you know an attorney by the name of Chaite?

Mr. STUCKEY. Yes, sir.

The CHAIRMAN. Did you see him often in Woodner's offices?

Mr. STUCKEY. I don't remember the exact dates, but on different occasions, he was in Mr. Woodner's office. He was in Mr. Woodner's office several times a week.

The CHAIRMAN. His capacity was what?

Mr. STUCKEY. So far as I know, his capacity with Mr. Woodner, his association with Mr. Woodner, was that of a consultant or adviser.

The CHAIRMAN. You were the assistant to Mr. Holiday?

Mr. STUCKEY. That's correct, sir.

The CHAIRMAN. And you say Mr. Holiday's responsibility was that of a general manager?

Mr. STUCKEY. Yes, sir; I would say that.

The CHAIRMAN. Did Mr. Holiday know everything that was going on out there?

Mr. STUCKEY. I would say Mr. Holiday had a general knowledge.

The CHAIRMAN. And you as assistant were in a position to know what did and did not go on?

Mr. STUCKEY. Yes, sir.

The CHAIRMAN. And you were in that capacity for how long?

Mr. STUCKEY. Several years, sir.

The CHAIRMAN. How many years?

Mr. STUCKEY. I was with Woodner Co. almost 3½ years, sir.

Mr. SIMON. Mr. Stuckey, there are a number of petty cash slips in the Woodner files which read like this:

"\$100: Expediting building permit."

"\$200" expediting something else.

Do you know anything about any of those?

Mr. STUCKEY. No, sir.

Mr. SIMON. Wouldn't that have been within your responsibility?

Mr. STUCKEY. Yes, sir, but there was another man associated in the same position as I was and he was also working on the same thing. Now, my petty cash slips were itemized.

Mr. SIMON. These were itemized. It would say: "\$100" for expediting something.

Mr. STUCKEY. Well, in petty cash it would pertain to cab fare, fees for building permits that were paid out of my pocket. I was reimbursed through the petty cash fund.

Mr. SIMON. Did you ever pay anybody anything for expediting anything?

Mr. STUCKEY. No, sir.

Mr. SIMON. Were you ever sent to the bank to cash large checks?

Mr. STUCKEY. I was sent to the bank to cash large checks, payroll checks, sir.

Mr. SIMON. How about nonpayroll checks?

Mr. STUCKEY. No, sir. I don't believe the bank honors a check made out to cash—a company check made out to cash.

Mr. SIMON. You don't?

Mr. STUCKEY. No, sir.

The CHAIRMAN. Did you ever sign any checks and secure cash for them?

Mr. STUCKEY. If I did, sir, it was under somebody else's endorsement and I did so on their instructions.

Mr. SIMON. Are you certain of that?

Mr. STUCKEY. To the best of my knowledge; to the best of my recollection.

Mr. SIMON. There are a lot of checks out there made out to cash with your name on the back of them that were bank-honored.

I hold one in my hand dated November 6, 1950, the Woodner Co., made out to the order of cash, and on the back there is first the signature of Arthur M. Chaite, and second the signature of J. Richard Stuckey.

Mr. STUCKEY. On that occasion I met Mr. Chaite at the bank and I cashed the check with him and gave him the cash.

Mr. SIMON. Why did you have to go to the bank?

Mr. STUCKEY. Because Mr. Chaite was not known at the bank. I believe he did not have an account at Riggs Bank.

Mr. SIMON. This was a check payable to cash and it was a corporation check.

Do you recall the incident?

Mr. STUCKEY. Now that you mention it; yes, sir.

Mr. SIMON. And you recall that you went to the Riggs Bank with Mr. Chaite?

Mr. STUCKEY. I don't remember whether I went with him or whether I met him there. It was one or the other, sir.

Mr. SIMON. Does that bear your signature on the back, Mr. Stuckey?

Mr. STUCKEY. That's correct.

Mr. SIMON. Do you recall now that you either met Mr. Chaite at the bank or you went with him?

Mr. STUCKEY. That's correct.

Mr. SIMON. You are certain about that?

Mr. STUCKEY. Yes, sir.

Mr. SIMON. And he endorsed the check first?

Mr. STUCKEY. That is correct, sir. He endorsed the check first and I endorsed it again because he was not known at the bank and I was known at the bank.

The CHAIRMAN. What did you do with the \$500?

Mr. STUCKEY. The \$500 was given to Mr. Chaite.

Mr. SIMON. What did he do with it?

Mr. STUCKEY. I don't know, sir.

Mr. SIMON. Did you leave the bank with him?

Mr. STUCKEY. I went out the front door; he went into a taxicab and I went to the office.

The CHAIRMAN. There is one here for \$1,000. I'll ask you if the same thing happened to that \$1,000 that happened to the \$500 you just testified to. The check is dated November 6, 1950.

Mr. SIMON. Who is the second check payable to, Mr. Stuckey?

Mr. STUCKEY. The second check is made out to Arthur M. Chaite, sir, and on the notation in the left-hand corner is "travel advance."

Seeing the checks brings it back. I believe Mr. Chaite was going out of town. The thousand-dollar check was issued for travel expenses, which it states. I believe these checks were cashed both at the same time, as I remember that.

Mr. SIMON. What was the \$500 for?

Mr. STUCKEY. I don't know.

Mr. SIMON. Why was it made out to cash instead of being made out to him like the first one?

Mr. STUCKEY. I don't know, sir.

Mr. SIMON. You are certain you were with him at the bank and he got the cash?

Mr. STUCKEY. Yes, sir.

Mr. SIMON. Now, I show you a check dated October 12, 1950, payable to the order of Arthur Chaite for \$5,796.40, and it bears his endorsement on the back and below that there appears your name. Is that your endorsement?

Mr. STUCKEY. That's correct, sir.

Mr. SIMON. Do you recall that incident?

Mr. STUCKEY. No, sir; I don't.

Mr. SIMON. That is an odd number. What is it?

Mr. STUCKEY. \$5,796.40.

The CHAIRMAN. What is the date of it?

Mr. STUCKEY. October 12, 1950.

The CHAIRMAN. That was just 2 days before you cashed the \$500 and the \$1,000 check; wasn't it?

Mr. STUCKEY. Yes, sir; but I don't remember this one.

Mr. SIMON. You have no recollection of that at all?

Mr. STUCKEY. No, sir.

Mr. SIMON. Is that your name on it?

Mr. STUCKEY. That's correct, sir.

Mr. SIMON. Is that your signature?

Mr. STUCKEY. Yes, sir.

Mr. SIMON. Did you sign that check?

Mr. STUCKEY. That's correct, sir.

Mr. SIMON. Do you recall where you were when you signed it?

Mr. STUCKEY. At Riggs Bank, sir.

Mr. SIMON. What was your salary at that time, Mr. Stuckey?

Mr. STUCKEY. I believe I was making \$75 or \$80 a week.

Mr. SIMON. This is about 15 months' salary for you, isn't it?

Mr. STUCKEY. That's correct, sir.

Mr. SIMON. And you don't even recall signing your name on the check?

Mr. STUCKEY. No, sir, I don't, because I was paymaster on Fridays and I signed checks for the Woodner Co. I believe in the year 1950 when the Woodner was under construction, in the amount of \$80,000.

Mr. SIMON. Of course, that wasn't a payroll check that you have in your hand.

Mr. STUCKEY. No, sir, it was not and on the other hand I was doing all the going between the bank and the office for the Woodner companies.

The CHAIRMAN. How is it you can remember the \$1,000 and \$500 check and can't remember a \$5,970 check?

Mr. STUCKEY. I believe, sir, Mr. Chaite was trying to make an airplane on that day that he cashed the two checks.

The CHAIRMAN. Then we send up another check, here, dated October 12—what is the date of the big check?

Mr. STUCKEY. October 12, sir.

The CHAIRMAN. Now, we send up a check dated October 12, 1950, and ask if that is your signature on the back and Mr. Chaite's signature, and who got that \$500. That is the same date as your big check for \$5,000. Is that your signature?

Mr. STUCKEY. That is my signature.

The CHAIRMAN. Did you get the money?

Mr. STUCKEY. No, sir; I passed the money to Mr. Chaite.

Mr. SIMON. Do you remember that?

Mr. STUCKEY. No, sir; I don't. I don't remember this check at all.

Mr. SIMON. Will you compare the check numbers of the \$5,000 check and the \$500 check?

Mr. STUCKEY. They are three checks apart, sir.

The CHAIRMAN. Who signed each of them?

Mr. STUCKEY. The \$500 check dated October 12 is made out—the \$500—is made out by Mrs. E. H. Macy.

The CHAIRMAN. Who is the big one made out by?

Mr. STUCKEY. By Mrs. V. Lucille Reeves.

The CHAIRMAN. And they are both the same date?

Mr. STUCKEY. That's correct, sir.

The CHAIRMAN. And they are just two numbers apart; is that correct?

Mr. STUCKEY. That's correct, sir.

Mr. SIMON. Mr. Stuckey, you know enough about bank stamps to know those checks were actually cashed at the Riggs Bank.

Mr. STUCKEY. Yes, sir. I see the hole where they were spindled on the teller's spindle.

Mr. SIMON. They were deposited at the Riggs Bank as distinguished from some other bank.

Mr. STUCKEY. That's correct.

Mr. SIMON. And you can sit there and say you haven't any idea who got that money on October 12, 1950?

Mr. STUCKEY. The money was given to Mr. Chaite, sir.

The CHAIRMAN. The money was given to Mr. Chaite?

Mr. STUCKEY. That's correct.

Mr. SIMON. Do you recall that?

Mr. STUCKEY. That's correct.

Mr. SIMON. Now, you do recall the incident?

Mr. STUCKEY. I don't recall the incident, sir, because I never received any money myself.

Mr. SIMON. How do you know it was Mr. Chaite who got the proceeds of those checks?

Mr. STUCKEY. Because on several occasions—these several occasions he was with me at the bank, sir.

Mr. SIMON. Do you have an independent recollection of that, or are you saying that merely because his name is on the check?

Mr. STUCKEY. No, sir, because I met him on several occasions. Whether those occasions coincide with the date of the checks and when they were cashed, I do not recollect, sir.

Mr. SIMON. When you met him at the bank, was it always for the purpose of identifying him to cash a check?

Mr. STUCKEY. Yes, sir.

Mr. SIMON. What was he going to do with that money?

Mr. STUCKEY. I do not know, sir, because his dealings with Mr. Woodner at times were not brought into the office and not aired between Mr. Holiday and myself.

Mr. SIMON. Were they on a sort of secret level?

Mr. STUCKEY. I wouldn't call it secret, sir, but you might say it would be the same as the relationship between Mr. and Mrs. Woodner at the time of their divorce. We didn't know in the office about Mr. and Mrs. Woodner splitting up until we read about it in the newspaper.

Mr. SIMON. Did you know that there was \$87,000 worth of detectives on the payrolls when he was having his divorce troubles?

Mr. STUCKEY. I did not know that, but at the time we were paying private detective fees to have the payroll guarded.

Mr. SIMON. To have the payroll guarded?

Mr. STUCKEY. That's correct.

Mr. SIMON. You could have had Brinks Express guard it for less than \$87,000.

Mr. STUCKEY. It wasn't my jurisdiction to say who would guard the payroll, and that was a company, you might say, "mismanagement."

The CHAIRMAN. Your testimony is unequivocally that Mr. Chaite received the \$5,960?

Mr. STUCKEY. That's correct, sir.

The CHAIRMAN. And he received it in cash?

Mr. STUCKEY. That's correct.

The CHAIRMAN. The check was cashed at the Riggs National Bank, you endorsed it, and he received the money?

Mr. STUCKEY. That's correct.

Mr. SIMON. And you have no idea what he did with the money?

Mr. STUCKEY. No, sir; I don't.

The CHAIRMAN. The records show that you signed a lot of other checks and received cash on them.

Mr. STUCKEY. That's correct, sir, because I went several times a day to the Riggs Bank, and I was known at the bank.

Mr. SIMON. There were other checks that you endorsed that were drawn to cash, and you are the only endorser on them.

Mr. STUCKEY. I do not remember them, sir. I do not recollect what they were for, or why they were given to me to be cashed.

The CHAIRMAN. Will you take our word for it or shall we go and get the checks?

You remember cashing a lot of checks for cash, don't you?

Mr. STUCKEY. Yes, sir.

The CHAIRMAN. What did you do with the cash, take it back and give it to Mr. Woodner?

Mr. STUCKEY. The cash was probably returned to the office and turned over to somebody in the office.

Mr. SIMON. The cash?

Mr. STUCKEY. Yes; the cash was taken back.

The CHAIRMAN. Do you know, as the assistant general manager out there, why they needed so much cash or used so much cash?

Mr. STUCKEY. No, sir; I don't.

The CHAIRMAN. You do not know what they did with it?

Mr. STUCKEY. No, sir.

Mr. SIMON. Incidentally, the payroll records back prior to 1952 were missing. Do you know where they are?

Mr. STUCKEY. No, sir; I do not.

Mr. SIMON. Were they there when you left?

Mr. STUCKEY. To the best of my knowledge, they were, sir. I left the company in, I believe it was, December of 1951. I went with the people I am presently working for, and then I went in the Army, in June 1952, and I have had very little to do with the Woodner Co., with the exception of a few people I happen to know there and have seen since then.

Mr. SIMON. Can you give us any more help on what happened to all this cash that was around there?

Mr. STUCKEY. No, sir; I can't. I can tell you that Mr. Woodner was the victim of large thefts on his projects. I know of several instances.

Mr. SIMON. Are you talking about cash or physical properties?

Mr. STUCKEY. Physical properties, sir.

Mr. SIMON. We are talking about the cash, though.

Mr. STUCKEY. No, sir, I don't know what happened to these cash sums. I do not know whether they were taken for expense money or what happened to the money I brought back.

Mr. SIMON. When you went to the bank to cash a check for \$2,500 or \$5,000, did anybody ever tell you what it was for?

Mr. STUCKEY. No, sir.

The CHAIRMAN. Did you ever see Mr. Powell in the offices of the Woodner?

Mr. STUCKEY. No, sir.

The CHAIRMAN. Do you know Mr. Powell?

Mr. STUCKEY. I believe I would know him if I saw him, sir.

The CHAIRMAN. Did you ever carry any messages to him?

Mr. STUCKEY. No, sir.

The CHAIRMAN. Thank you, Mr. Stuckey. You might remain around if you will, until we recess today. If you will, please.

Mr. STUCKEY. All right, sir.

The CHAIRMAN. Now is Mr. Chaite ready? If not our next witness will be Mr. Alex Kornman of the Shelby Construction Co. Mr. Kornman—

Is Marshall Diggs present?

(No response.)

The CHAIRMAN. Will you be sworn, Mr. Kornman?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

**TESTIMONY OF ALEX J. KORNMAN, PARK CHESTER, NEW ORLEANS,  
LA., ACCOMPANIED BY JOHN D. MARTIN AND LOUIS CLAVERIE—  
Resumed**

Mr. KORNMAN. I do.

The CHAIRMAN. Will you please be seated and give your full name and address to the official reporter?

Mr. KORNMAN. Alex J. Kornman, New Orleans, La.

The CHAIRMAN. You may proceed.

Mr. SIMON. Mr. Kornman, you are the vice president, is it, of the Shelby Construction Co.?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. Shelby Construction Co. is a New Orleans corporation?

Mr. KORNMAN. It is a Louisiana corporation, yes, sir.

Mr. SIMON. Did the Shelby Construction Co. create 11 wholly owned subsidiary corporations which were the builders of the 11 projects in the Park Chester group?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. Each corporation built one square block of buildings?

Mr. KORNMAN. That is correct, sir.

Mr. SIMON. There were 11 blocks of buildings?

Mr. KORNMAN. That is correct.

Mr. SIMON. What was the capital stock of each of those 11 corporations?

Do you recall, Mr. Kornman, what the capital stock was?

Mr. KORNMAN. Not from memory, sir.

Mr. SIMON. Was it more than \$1,000 in each company?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. What was the cash that you put in each of them?

Mr. KORNMAN. \$163,600.

Mr. SIMON. In the 11 companies?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. And then Shelby built the buildings; is that right?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. The Government gave you a \$10,800,000 mortgage to those 11 companies?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. And it was only the 11 companies that had \$163,000 of capital, that signed the mortgages; is that right?

Mr. KORNMAN. In addition to the land that was transferred in there for stock; yes, sir.

Mr. SIMON. My question was whether it was only the 11 corporations with \$163,000 of capital that signed the mortgages.

Mr. KORNMAN. I don't quite understand your question.

Mr. SIMON. Have you ever seen a mortgage?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. Somebody agrees to pay the money back; is that right?

Mr. KORNMAN. That is right.

Mr. SIMON. Was it anybody other than these 11 corporations, with a capital stock of \$163,000, that agreed to pay back the money?

Mr. KORNMAN. No, sir. The corporations signed the mortgages.

Mr. SIMON. Just the subsidiary corporations signed the mortgages?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. Shelby didn't sign?

Mr. KORNMAN. No, sir.

Mr. SIMON. When the buildings were built, do your books show that you had \$1,746,000 of the mortgage loan left over in Shelby?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. And none of the mortgage money left over was in these 11 corporations?

Mr. KORNMAN. Our books do reflect a sum of \$36,712 that was left in the corporation.

Mr. SIMON. \$346,000 was left in the 11 corporations that signed the mortgage; is that right?

Mr. KORNMAN. Not in the 11 corporations; in 2 or 3 corporations of the 11.

Mr. SIMON. And nothing in the others?

Mr. KORNMAN. That is right.

Mr. SIMON. So the total in the 11 corporations was \$36,000?

Mr. KORNMAN. That is right.

Mr. SIMON. And \$1,746,188, according to your computation, was left in Shelby?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. Then, about 2 years later—let me say first, You filed a consolidated income-tax return?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. So you paid no income tax on this \$1,746,000?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. Then about 2 years later did you sell those 11 corporations, with the \$10,800,000 mortgage, for \$5,000 cash?

Mr. KORNMAN. And a note.

Mr. SIMON. \$5,000 cash and a note for another \$110,000, which they paid off out of the income?

Mr. KORNMAN. I wouldn't know how they paid it off, sir.

Mr. SIMON. Well, at least they paid it off after they were getting income?

Mr. KORNMAN. Well, they paid part of it off. I can't say how they paid it off.

Mr. SIMON. They paid you \$5,000 cash and you turned over these 11 blocks of real estate and at a later date they paid a note which totaled \$110,000, or totaled \$115,000, of which they paid at the time of sale?

Mr. KORNMAN. Yes, sir, but we also sold them some furniture at the time.

Mr. SIMON. That wasn't the corporation's, but you got another 30 or 40 thousand dollars for the furniture?

Mr. KORNMAN. I believe so; yes, sir.

Mr. SIMON. And then the people you sold to, hold \$5,000 invested plus what they paid you for the furniture, went into default; is that right?

Mr. KORNMAN. That is right.

Mr. SIMON. And the Government is now foreclosing on the properties?

Mr. KORNMAN. That is what I understand, sir.

Mr. SIMON. In reaching your own figures of \$1,746,000, of mortgage proceeds in excess of costs, have you included an item of \$521,999.17 of overhead or operating expenses?

Mr. KORNMAN. Only for the purpose of this statement, Mr. Simon.

Mr. SIMON. Well, if you eliminate that item—if you eliminate that item, then the excess of mortgage proceeds over the cost, is \$2,250,000; isn't it?

Mr. KORNMAN. If you do, yes, sir; but I want to say—

Mr. SIMON. In order to make sure the record is clear, the \$1,746,000 that you claim is the excess mortgage proceeds is after deducting overhead of \$521,000?

Mr. KORNMAN. That is right; yes, sir.

Mr. SIMON. Now, included in the overhead of \$521,000 is \$145,000 of officers' salaries?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. And that was paid to Mr. Leader, Mr. Kapitalow, and you; is that right?

Mr. KORNMAN. I believe so but I don't have the analysis of those salaries here. That was over quite a long period of time.

Mr. SIMON. Three years according to my record.

Mr. KORNMAN. Then not all of it would be included in that \$521,000.

Mr. SIMON. \$145,000 of salaries you paid yourselves is included in the \$521,000 of overhead; is that right?

Mr. KORNMAN. I would have to check my figures, sir, to see if all of that was included.

Mr. SIMON. I would be glad to have you do it.

Mr. MARTIN. Senator, you were not there at the time, but Shelby appeared at the public hearing in New Orleans, 1 month ago, and testified for what has now been covered here so far. That is why Mr. Kornman is not too well prepared.

The CHAIRMAN. Are you questioning whether there was \$145,000?

Mr. KORNMAN. No, sir; I am merely questioning the distribution.

The CHAIRMAN. Do you want to say it was just \$100,000 that should have been charged to this account? If you are, we will compromise on \$45,000, or \$50,000.

Mr. KORNMAN. That is not what I was looking up. I was merely trying to see how many years it covered.

The CHAIRMAN. Well, our records show 3. Do you want to say 4?

Mr. KORNMAN. Well, your records are exactly as mine.

The CHAIRMAN. They should be; that is the point. They are taken from your books.

Mr. KORNMAN. If your records say 3 I will assume it is 3.

The CHAIRMAN. I don't think it is too important anyway.

Mr. SIMON. The thing I am particularly interested in, this record shows \$39,237 for travel charged to this Park Chester job, and \$16,030 for entertainment charged to the Park Chester job. We have served you with a subpoena to produce the vouchers or the bills for those travel and entertainment expenses. Do you have them here?

Mr. KORNMAN. Mr. Simon, may I say this before—

Mr. SIMON. Do you have them?

Mr. KORNMAN. I have the biggest portion of them; yes, sir. I have three briefcases full of them. However, I would like to make this statement, that the expenses to which you make reference are not the expenses of these projects, they are the expenses of the Shelby Construction Co.

Mr. SIMON. Mr. Kornman, have you ever seen this mimeographed sheet of paper that I have in my hand?

Mr. KORNMAN. Yes, sir; I certainly have.

Mr. SIMON. Who prepared that?

Mr. KORNMAN. It was prepared in our office.

Mr. SIMON. Under your supervision?

Mr. KORNMAN. Under my supervision; yes, sir.

Mr. SIMON. Now, who was the man or woman who put in this item of \$521,999.17 as overhead charged to the Park Chester job?

Mr. KORNMAN. Mr. Simon, I believe we tried to explain this—

Mr. SIMON. Who put it in?

Mr. MARTIN. He hasn't finished his answer.

The CHAIRMAN. Well, who put it in? It is your record, made up in your office, in your figures.

Mr. KORNMAN. I put it in, Senator.

The CHAIRMAN. Well, it belongs there, then; doesn't it?

Mr. KORNMAN. No, sir; it does not.

The CHAIRMAN. Why did you put it in, then?

Mr. KORNMAN. May I explain this, if you please, sir?

The CHAIRMAN. Yes.

Mr. KORNMAN. We received a request from the Federal Housing Administration to answer a questionnaire. Their questionnaire was prepared in the form shown in this statement. It is not the form that we use; it is not the way we charge expenses at all; it was merely prepared for the benefit of the Federal Housing Administration in answering their questionnaire.

Now, you cannot say that this is a Park Chester expense or any other expense.

The CHAIRMAN. You said it was a Park Chester expense.

Mr. KORNMAN. I said it was prepared for the benefit of the Federal Housing Administration and follows their form.

The CHAIRMAN. I am going to send this down to you and ask you if that \$521,000 isn't under the heading of "Park Chester," \$37,000 under "Roselawn," \$329 under "St. Louis," and \$566,000 under "Clayborne," for a total of \$1,455,085.30, operating expense, under Park Chester, Roselawn, St. Louis, Clayborne, and under Park Chester is \$521,999.17.

Now that just isn't true?

Mr. MARTIN. Senator from the hearing I think I can make it very clear.

Mr. SIMON. Well, apparently he ought to be able to tell us.

Mr. MARTIN. We have 4 hours' worth of testimony.

The CHAIRMAN. Let the lawyer answer it if he can. All we want is the facts.

Mr. MARTIN. He is trying to say that 11 corporations borrowed money. They made construction contracts with Shelby Construction Co., the substance of which was that the lump sum of the loans would be paid to Shelby for the construction of the buildings.

Now, he was asked, what did it cost Shelby Construction Co. to build the buildings. That undertakes to be a statement of what Shelby Construction Co.'s cost of building the buildings was.

He then comes to his overhead which he had in the 2 years that the buildings were in process of being constructed and he says that we have to, under approved accounting practices, allocate overhead to the particular jobs that were in process.

The CHAIRMAN. That is just exactly the way I understand it and he allocated \$521,000 to Park Chester, \$37,000 to Roselawn, \$329,000 to St. Louis, and \$566,000 to Clayborne, for a total of \$1,455,000.

Mr. MARTIN. That is exactly right.

The CHAIRMAN. Then, what is the argument all about?

Mr. MARTIN. Well, we thought it was trying to be proved that these 11 mortgagor corporations paid entertainment and traveling.

Mr. SIMON. Nothing could have been further from any thought that ever entered our mind. We have tried to make clear the exact opposite.

Mr. MARTIN. Excuse me.

Mr. SIMON. There is no question but what all these expenses are the expenses of Shelby. Isn't that right, Mr. Kornman?

Mr. KORNMAN. That is right.

Mr. SIMON. Now, what we have been trying to find out from you for 4 months is what was the cost of constructing the Park Chester project, and that was what FHA was trying to find out from you, what was the cost of constructing the Park Chester project? And you say the windfall was only \$1,750,000 because you want to include a half a million dollars of overhead. That should be included if it is Park Chester overhead. It should not be included if it wasn't Park Chester overhead and we have been trying to find out on what basis you include the \$39,000 of travel, the \$16,000 of entertainment, the \$145,000 of officers' salaries and so on, to Park Chester.

Now, are those Park Chester costs.

Mr. KORNMAN. They are costs of doing business.

Mr. SIMON. Are they Park Chester costs?

Mr. KORNMAN. They are costs of the Shelby Construction Co. during which time Shelby Construction Co. was constructing those buildings.

Mr. SIMON. Are they costs of construction of Park Chester?

Mr. KORNMAN. They are——

The CHAIRMAN. The answer has to be "Yes."

Mr. KORNMAN. It has to be. Certainly.

Mr. SIMON. If they are costs of the construction of Park Chester, then we want to know what they are.

Mr. KORNMAN. I don't understand your question.

Mr. SIMON. They are either costs of construction of Park Chester or they are not.

Mr. KORNMAN. Well, they are.

Mr. SIMON. We have agreed on that. Now what are they?

You have the vouchers there for this entertainment and travel.

Mr. KORNMAN. I gave you photostatic copies.

Mr. SIMON. You have not given us a photostatic copy of a single invoice.

Mr. KORNMAN. Let me finish, sir.

I gave you copies of a schedule that I prepared, listing each payment.

Mr. SIMON. But our subpoena called for the vouchers.

Mr. KORNMAN. Yes, sir. But you are asking me to tell you what they are. I have a number of invoices.

Mr. SIMON. You do have the vouchers there?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. May we have them, please?

Mr. KORNMAN. Do you want all of them, sir?

Mr. SIMON. I want the \$16,000 worth of vouchers on entertainment and the \$39,000 of vouchers on travel.

Mr. KORNMAN. I have them altogether for the years involved in folders.

The CHAIRMAN. Suppose you give them up and give them to Mr. McManus, who has been loaned to this committee by the General Accounting Office.

Mr. SIMON. Now, Mr. Kornman, during the time this Park Chester project was being constructed, where did Mr. Kapitalow live?

Mr. KORNMAN. He lived in New Orleans.

Mr. SIMON. Yes. Where?

Mr. KORNMAN. On Mirabeau Avenue.

Mr. SIMON. Who owned the house that he lived in?

Mr. KORNMAN. Shelby Construction.

Mr. SIMON. Did he pay any rent on it?

Mr. KORNMAN. No, sir.

Mr. SIMON. Did he pay any interest on the investment or anything else?

Mr. KORNMAN. No, sir.

Mr. SIMON. After the project was built, did the Shelby Construction Co. build a house for Mr. Kapitalow?

Mr. KORNMAN. Will you repeat that question?

Mr. SIMON. Did the Shelby Construction Co. build a house for Mr. Kapitalow?

Mr. KORNMAN. After the——

Mr. SIMON. My question is, did they build a house for Mr. Kapitalow?

Mr. KORNMAN. Mr. Kapitalow built the house in New Orleans.

Mr. SIMON. Did he build it himself?

Mr. KORNMAN. Yes, sir; he built it himself.

Mr. SIMON. With his own hands?

Mr. KORNMAN. No; he supervised the building of it.

Mr. SIMON. Didn't Shelby Construction Co. build it?

Mr. KORNMAN. Shelby Construction Co. paid the bills and he reimbursed Shelby.

Mr. SIMON. Let's get one thing at a time. Did Shelby Construction Co. pay all the bills?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. And they totaled how much? Was it \$354,000?

Mr. KORNMAN. If that is the figure you got from the New Orleans testimony, that is right.

Mr. SIMON. Do you know how much it cost?

Mr. KORNMAN. I would say that is about right; yes, sir.

Mr. SIMON. Has Mr. Kapitalow reimbursed Shelby for that?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. What is that date of the check?

Mr. KORNMAN. Well, there were a number of checks. He reimbursed it over a period of time.

Mr. SIMON. Where did he get the money?

Mr. KORNMAN. He got the money from the liquidation of certain of his assets.

Mr. SIMON. What assets?

Mr. KORNMAN. Well, we liquidated a number of corporations.

Mr. SIMON. What corporations?

Mr. KORNMAN. I haven't got those with me, sir, I don't have them—I mean I can think of about four right offhand.

Mr. SIMON. Let me ask you today the same question I asked you on Monday—you have had 4 days now to answer—when Mr. Kapitalow went to New Orleans in 1948, his financial statement shows that his total assets were less than \$300,000. After going to New Orleans, he never paid himself a dime in dividends and his salaries from Shelby were very modest salaries. They bought out their third partner for \$315,000 and built the house for \$354,000 and he made substantial investments in seven other corporations and are listed on the Dun & Bradstreet report that you and I have gone over many times. If there were no dividends paid and the salaries were so modest, where did Mr. Kapitalow get that money?

Mr. KORNMAN. That is a long, involved question, Mr. Simon, and I would like to take it a little slowly so I could answer it.

The CHAIRMAN. Maybe Mr. Kapitalow ought to answer that.

Mr. MARTIN. I think he did, in great length.

The CHAIRMAN. You are the vice president of the company?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. Isn't it a fact that this house was paid for merely by charging his account on the books of the company with it?

Mr. KORNMAN. No, sir.

The CHAIRMAN. You haven't yet shown us, have you, where he paid for it himself?

Mr. KORNMAN. I believe I did, Senator. Mr. Bard from your office was at my office and I showed him, as I recall—

The CHAIRMAN. You showed him an entry on your books which shows that you charged it to Kapitalow's account, but you never showed where Kapitalow paid for it.

Mr. KORNMAN. Mr. Chairman, if you will let me finish, please, sir.

The CHAIRMAN. Maybe he still owes Shelby Construction for it. Does he?

Mr. KORNMAN. No, sir, he doesn't.

Mr. SIMON. Where did he get the money to pay for it?

Mr. KORNMAN. If you will give me time to tell it.

The CHAIRMAN. Proceed.

Mr. KORNMAN. When Mr. Bard was in my office I think I spent about an hour and a half with him and showed him the exact transaction, how it occurred on our books. I showed him where funds were put in by Mr. Kapitalow from time to time to reduce his account.

Mr. SIMON. Where did he get the money?

Mr. KORNMAN. He got the money from bank loans, he got the money from liquidation of corporations.

Mr. SIMON. What corporations?

The CHAIRMAN. Just give us one.

Mr. KORNMAN. One was Delta Lumber & Supply Co. It had a net worth of around \$90,000, as I recall.

Mr. SIMON. How much cash did he get out of the liquidation of that company?

Mr. KORNMAN. He would have gotten about—

Mr. SIMON. How much cash did he get, not how much he would have gotten?

Mr. KORNMAN. Mr. Simon, I don't remember those figures but he got—

Mr. SIMON. Let me remind you of your testimony that he got no cash out of the liquidation but that it was a swap and that the lumber finally ended up in Shelby. Do you recall that?

Mr. KORNMAN. No, Mr. Simon, you are confusing two different situations altogether.

Mr. SIMON. How much cash did he get out of that?

Mr. KORNMAN. He got either the cash or the assets of the corporation, which should have been equivalent to cash at that time, because it was strictly a trading corporation.

Mr. SIMON. How much cash did he get?

Mr. KORNMAN. If I had my books and records here I could tell you, sir.

The CHAIRMAN. I don't think we are getting anyplace here, so I think I shall ask the General Accounting Office to—

Mr. SIMON. It is primarily a matter for the collector of internal revenue anyway, Senator.

The CHAIRMAN. I think I shall ask the General Accounting Office to audit the books and then we will be able to get the facts.

Mr. MARTIN. May I state for Mr. Kapalow that his income-tax returns for those years have been audited—every item, as I understand—and there has been a final adjustment with the tax department.

The CHAIRMAN. Did he pay the tax people more money than his returns called for?

Mr. MARTIN. The reason I state that, Senator, is that I would hate for there to be an inference left that perhaps the head of this large construction company, with millions of dollars' worth of construction in progress that has no connection with FHA, if the inference were left that possibly he was guilty of something.

The CHAIRMAN. We don't want to leave any inference. We just want to ask the question. We have asked some questions, here, and we don't seem to be able to get the answer and I can well understand how you wouldn't be able to remember some of them, so we will just ask the General Accounting Office to look into the records and give us a report on the situation.

Mr. SIMON. Senator, I think it would be unfair to leave Mr. Martin's statement unanswered, because it is not accurate. The fact is that the Internal Revenue Service right now is auditing these returns.

The CHAIRMAN. If they haven't, they will be.

Mr. SIMON. I can assure you that Shelby's tax returns are right now being audited by the Internal Revenue Service.

The CHAIRMAN. Let's not get into that. We don't want to do anything here that is going to be harmful and yet we want the facts. Sometimes they are not easy to get and there is a rather complicated matter, so I think we will just ask the General Accounting Office to check into it and give us a report.

Mr. SIMON. Mr. Kornman, on March 18, 1948, did the Shelby Construction Co. enter into a contract with the Mississippi Valley Mortgage Co., Inc., for financing the Park Theater project and other projects it might build in New Orleans?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. And does that contract provide that Shelby is to pay Mississippi Valley an amount equal to 3 percent of the principal amount of any loan insured by FHA, under section 608?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. What was the amount that the FHA regulations provided for as the financing charges?

Mr. MARTIN. Senator, that addresses itself to a legal question and I have here the regulation. The regulation says that the mortgagee may charge the mortgagor the transaction. "Such initial service charge may be an amount not in excess of 1.5 percent of the original principal amount of the mortgage."

I would like to make it crystal clear that the mortgagees in these cases were banks and insurance companies and that there is no regulation that I know of that says that a mortgage-loan broker, in a bona fide transaction, cannot enter into an agreement and a contract.

The CHAIRMAN. I think I am inclined to agree with you, and this contract that you entered into with the Mississippi Mortgage Co. was simply—was beyond the 1½ percent, and had no particular connection with that end of it, but it was simply an addition to the 1½ percent that the mortgagees would charge.

You may proceed, then.

Mr. SIMON. What was Mississippi Valley supposed to do for this 3 percent?

Mr. KORNMAN. Mississippi Valley—

Mr. SIMON. Let me ask you, first, Who was the mortgagee in these Park Chester loans, in the FHA applications?

Mr. KORNMAN. Irving Trust was the original mortgagee.

Mr. SIMON. Did they make the loans?

Mr. KORNMAN. No, sir; Irving Trust backed out of the loan.

Mr. SIMON. Did you then amend your application to substitute someone else?

Mr. KORNMAN. They were subsequently assigned to the Hibernia National Bank in New Orleans.

Mr. SIMON. And it was the mortgagee?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. And in addition to Irving Trust Co. first and Hibernia National Bank later, the Mississippi Valley Trust Co. did some financing work for you; is that right?

Mr. KORNMAN. Mississippi Valley Mortgage Co. arranged the financing for us after the Irving Trust refused to do it.

The CHAIRMAN. Now, is the Mississippi Valley Mortgage Co.—is that the company that you entered into this contract with?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. And who owns Mississippi Valley—who owned it then?

Mr. KORNMAN. At that time it was owned by E. H. Crump, Jr., and some of his associates.

The CHAIRMAN. And what was the capital stock of this Mississippi Mortgage Co.?

Mr. KORNMAN. \$10,000.

The CHAIRMAN. And when was it organized?

Mr. KORNMAN. It was organized in 1947.

The CHAIRMAN. 1947.

Was it organized for the specific purpose of handling mortgages and rendering services to the Shelby Construction Co.?

Mr. KORNMAN. Yes, sir; I believe so. It was organized for that purpose.

The CHAIRMAN. And the agreement was that they were to get 3 percent of whatever the total amount of the mortgages were that Shelby Construction later secured?

Mr. KORNMAN. Yes, sir.

The CHAIRMAN. Now, this company, you say it was organized by Mr. Crump; is he the president?

Mr. KORNMAN. E. H. Crump, Jr.; yes, sir.

The CHAIRMAN. And they put \$10,000 in it?

Mr. KORNMAN. Yes, sir.

The CHAIRMAN. What did they do for this 3 percent that they secured?

Mr. KORNMAN. They arranged—

The CHAIRMAN. You have already testified now that the mortgagees got 1½ percent?

Mr. KORNMAN. No, sir; I did not so testify.

The CHAIRMAN. Didn't they get 1½ percent?

Mr. KORNMAN. No, sir; they did not get 1½ percent.

The CHAIRMAN. In other words, the Mississippi Valley Mortgage Co. got 3 percent?

Mr. KORNMAN. That is right.

The CHAIRMAN. It was a new corporation organized, with \$10,000 cash, to handle Shelby Construction Co.'s mortgage?

Mr. KORNMAN. That is right, sir.

The CHAIRMAN. What did they do for the 3 percent?

Mr. KORNMAN. They organized a—

The CHAIRMAN. First let me ask you this: Did they get 3 percent?

Mr. KORNMAN. Yes, sir.

The CHAIRMAN. How much did it amount to in dollars?

Mr. KORNMAN. It amounted to \$290,862.

The CHAIRMAN. That was what Shelby Construction Co. paid the Mississippi Mortgage Co.?

Mr. KORNMAN. Yes, sir.

The CHAIRMAN. And what did they do for it?

Mr. KORNMAN. They organized a syndicate of banks to furnish the construction money which was not available anywhere else, at that time, and of course they were highly important in obtaining the construction bonds which were necessary, then, which were almost unattainable at that time.

Mr. SIMON. Why was this money in these bonds so unattainable?

Mr. KORNMAN. Primarily due to the mortgage market, then, and to the unfamiliarity of people with the section 608 program.

Mr. SIMON. Is it your testimony that Mr. Crump, Jr., was able to get you something which was otherwise unattainable?

Mr. KORNMAN. Well, virtually unattainable because we ourselves were unable to obtain it because we had been turned down by a number of banks.

Mr. MARTIN. Mr. Simon, I am sure you mean from bonding companies and banks?

Mr. SIMON. I am just asking him. I don't know anything about it.

Mr. KORNMAN. What I should have said is that we ourselves were unable to arrange the financing and we had to get someone who knew

how to do it, and was able to arrange the financing, and Mississippi Valley Mortgage Co., through E. H. Crump, Jr., was able to do so.

The CHAIRMAN. Now, Mississippi Valley Mortgage Co.—who owns it, today?

Mr. KORNMAN. Shelby Construction Co. owns it, sir.

The CHAIRMAN. When did you buy it?

Mr. KORNMAN. We bought it in October of 1950.

The CHAIRMAN. October 1950, and it was organized in 1947?

Mr. KORNMAN. Yes, sir.

The CHAIRMAN. And what did you pay for it?

Mr. KORNMAN. We paid \$383,000 for it.

The CHAIRMAN. \$383,000?

Mr. KORNMAN. That is correct.

The CHAIRMAN. And you own it today?

Mr. KORNMAN. Yes, sir.

The CHAIRMAN. In other words, you paid \$383,000 for the original investment that they made of \$10,000 in capital stock?

Mr. KORNMAN. No, sir; not exactly.

The CHAIRMAN. Tell us wherein that is wrong.

Mr. KORNMAN. Mississippi Valley Mortgage Co. was engaged in arranging financing for somewhere around \$32 million worth of mortgage loans.

The CHAIRMAN. And you agreed to pay them 3 percent?

Mr. KORNMAN. Not on all of it.

The CHAIRMAN. Well, the contract said three. Maybe you didn't pay them on all of it.

Mr. KORNMAN. That is just the first contract.

Mr. SIMON. Were all of those mortgage loans with Shelby?

Mr. KORNMAN. Yes, sir.

Mr. SIMON. Mississippi Valley never did any business with anybody except Shelby?

Mr. KORNMAN. No, sir; not to my knowledge.

Mr. SIMON. And was all of the Shelby business, FHA business?

Mr. KORNMAN. At that time; yes, sir.

Mr. SIMON. That \$32 million worth is all FHA business, with Shelby?

Mr. KORNMAN. Yes, sir.

The CHAIRMAN. Now your Shelby Construction Co. bought out capital stock in the mortgage company for \$383,000, about 3 years later?

Mr. KORNMAN. Yes, sir.

The CHAIRMAN. Stock that cost the mortgage company \$10,000?

Mr. KORNMAN. Well, less whatever earnings they had during that period.

The CHAIRMAN. You just said you paid the mortgage company \$283,000 for \$293,000, as 3 percent on the mortgage. Then you paid them another \$383,000 when you bought them out.

I presume the mortgage company had a lot of cash on hand when you purchased it from the stockholders, did it not?

Mr. KORNMAN. No, sir, it didn't. It didn't have the cash on hand because at that time most of these assets were invested in loans in Shelby Construction Co.

The CHAIRMAN. I see. This same mortgage company that Mr. Crump organized loaned the money back to Shelby Construction?

Mr. KORNMAN. Yes.

The CHAIRMAN. Then it really belonged to Shelby Construction all the time, didn't it?

Mr. KORNMAN. No, sir.

Mr. MARTIN. Senator, could I once again make a statement?

The CHAIRMAN. Well, why would this mortgage company be loaning all or most of the money, you just said, back to the Shelby Construction Co.?

Mr. KORNMAN. In our contract with Mississippi Valley Mortgage Co., over this period of time, they had been permitted to lend us over \$1,300,000.

The CHAIRMAN. You mean they had agreed to secure it for you?

Mr. KORNMAN. No, sir; to lend it to us.

The CHAIRMAN. All right, but they couldn't loan \$1 million if they only had \$10,000 themselves, they had to borrow it from somebody else.

Mr. MARTIN. That is right.

Mr. KORNMAN. That is right, but, they were committed to lend us that much money and they did lend it to us or the biggest portion of it, at the time that we bought it—at the time we bought Mississippi Valley Mortgage Co., Shelby Construction Co. owed Mississippi Valley Mortgage Co., I think it was \$350,000, which was virtually all of its assets.

The CHAIRMAN. Well, let me see, then.

The point is that Mississippi Mortgage Co. was organized 100 percent to handle the mortgages for Shelby.

They proceeded to do it for a period of 3 years at the end of which time you bought them out for some \$393,000.

They started out with \$10,000 cash. At times they were instrumental in borrowing themselves, \$1 million which they loaned to you and now you own the mortgage company as well as Shelby Construction! Are those the facts?

Mr. MARTIN. Senator, I might add to it, that the total amount received by Ed Crump, Jr., and his associate stockholders—he was the principal stockholder in the merger—the total amount received from all sources by them was the \$383,000 for the stock in the sale of Shelby. That included arranging \$32 million in loans for 29 projects, and it included a loan by Mississippi Valley Mortgage Co., of \$1 million of its own funds that had nothing to do with FHA.

The CHAIRMAN. You mean funds it had borrowed?

Mr. KORNMAN. Funds it had borrowed?

The CHAIRMAN. And loaned to you?

Mr. KORNMAN. That is right. It had been borrowed from banks and other financial sources.

The CHAIRMAN. And paid interest on it, of course, in addition to this \$393,000? It received interest from Shelby Construction Co.?

Mr. MARTIN. Well, Shelby, when it bought Mississippi Valley, got back everything it paid into Mississippi.

The CHAIRMAN. Well, let me say this:

The interest we have in this is the fact that the mortgage company was organized for the specific purpose of handling Shelby's business. That is all it did handle. Later Shelby purchased all the stock in it, and the stockholder, Mr. Crump and his associates got out.

Mr. MARTIN. And Shelby thought, and the numerous banks that participated thought, that Shelby had gotten the services, and arranged these loans cheaply.

The CHAIRMAN. Well, thank you very much.

That will be all.

Now is Mr. Diggs present?

Mr. Marshall Diggs?

Mr. Diggs, will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

### TESTIMONY OF MARSHALL DIGGS, WASHINGTON, D. C.

Mr. SIMON. Mr. Diggs, you are a lawyer in the District of Columbia, here?

Mr. DIGGS. Yes, sir.

Mr. DIGGS. I do.

The CHAIRMAN. Give your full name and address to the reporter.

Mr. DIGGS. Mr. Marshall Diggs, 1025 Connecticut Avenue.

Mr. SIMON. Do you know Richard McCormack?

Mr. DIGGS. Yes, sir.

Mr. SIMON. Have you had some business dealings with him?

Mr. DIGGS. Yes, sir.

Mr. SIMON. Did he bring you a total of 12 clients interested in Wherry Act projects?

Mr. DIGGS. Yes, sir.

Mr. SIMON. And each one of those clients paid a fee of \$5,000?

Mr. DIGGS. They did, but 1 of them was returned entirely and 4 of them were partially returned.

Mr. SIMON. But initially each of the 12 clients paid a fee of \$5,000?

Mr. DIGGS. They did.

Mr. SIMON. And Mr. McCormack brought each of them to you?

Mr. DIGGS. Yes, sir. That is, to me and my associate, Mr. Tarnay.

Mr. SIMON. And your other arrangement was that 50 percent of whatever fees you had were paid to McCormack?

Mr. DIGGS. That is right, sir.

Mr. SIMON. And he was paid 50 percent of each of those fees?

Mr. DIGGS. He was.

Mr. SIMON. Did you pay him approximately \$27,500?

Mr. DIGGS. Well, whatever \$2,500 times 12 is.

Mr. SIMON. Well, \$2,500 times 12 would be \$30,000.

Mr. DIGGS. And one of them was returned. That is right, sir.

Mr. SIMON. So that would be \$27,500?

Mr. DIGGS. That is right.

Mr. SIMON. Now, do you know what Mr. McCormack told these people that he sold on permitting him to bring you this Wherry Act problem?

Mr. DIGGS. I do not, sir.

Mr. SIMON. I take it you have heard but that is hearsay, the things that were told to you?

Mr. DIGGS. It is.

Mr. SIMON. All you know is that he brought them to you and you selected the \$5,000 fees and in a couple cases returned it, and paid him 50 percent, or \$27,500?

Mr. DIGGS. That is right, sir.

Mr. SIMON. And of the 12 Wherry Act cases that he brought, in any of them, was a commitment issued by FHA?

Mr. DIGGS. It was not.

The CHAIRMAN. No commitments were issued?

Mr. DIGGS. No, sir.

The CHAIRMAN. So \$60,000 was collected for services, and no commitments were issued?

Mr. DIGGS. On none of his cases.

The CHAIRMAN. And you paid him \$27,500?

Mr. DIGGS. That is right, sir.

The CHAIRMAN. It was not a loan?

Mr. DIGGS. It was not a loan.

The CHAIRMAN. It was his fees for bringing these people to you?

Mr. DIGGS. Yes, sir.

Mr. SIMON. Do you know of any basis for his saying that the \$27,500 was a loan, other than the fact that he had not included it in the tax returns?

Mr. DIGGS. I do not, sir.

Mr. SIMON. Thank you, sir.

The CHAIRMAN. Any questions?

Thank you very much, Mr. Diggs.

Mr. Traub, please come forward.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF ABRAHAM TRAUB, FARRAGUT GARDENS, BROOKLYN, N. Y., ETC., ACCOMPANIED BY ARTHUR SCHEINBERG, COUNSEL—Resumed**

Mr. TRAUB. I do.

The CHAIRMAN. Give your name and address to the reporter, and the gentleman with you is your attorney, is he?

Mr. TRAUB. Abraham Traub, 1620 Avenue I, Brooklyn, N. Y.

Mr. SCHEINBERG. Arthur Scheinberg, of New York City.

Mr. Chairman, may I make a statement for the record?

The CHAIRMAN. You may.

Mr. SCHEINBERG. I would like the record to indicate that Mr. Traub didn't learn until approximately 10:30 this morning that the committee desired his presence here this afternoon. Just as soon as he learned of that desire, he communicated with Mr. Walter, of your staff, and despite the fact that no subpoena had been served, we arranged the first flight we could, to come down here and present ourselves before this committee.

The CHAIRMAN. You were here in plenty of time; thank you sir.

Mr. SIMON. Mr. Traub, we have previously asked you a number of questions with respect to your dealings with clients who had section 608 applications before the Federal Housing Administration, and as you know, this started with the Farragut Gardens project.

Last week in New York, the chairman directed you to surrender certain books and records to the General Accounting Office, who have since made a partial audit, or at least as much as the intervening time permitted.

Your income-tax return for the calendar year 1950 listed \$80,958.42, as "miscellaneous expense for clients."

The General Accounting Office has broken that down and finds that \$60,252.38 of that sum was disbursed by checks payable to cash. The checks include a check on September 6, 1950, payable to cash for \$8,000 for which there is no record anywhere in your books as to who got the money or what it was for, or at least the General Accounting Office can find none, and it was charged for "miscellaneous expense for clients."

Can you tell us what that is?

Mr. TRAUB. Well, to the best of my knowledge and recollection, as I previously testified, Mr. Simon, those are sums paid on account of past indebtedness, and guaranties.

Mr. SIMON. In your income-tax returns you took credit for an item which you called "payments of obligations as guarantor," and in the 4-year period, 1949 through 1952, those payments, a very substantial number of which are to the order of cash, total \$998,000. We have assumed that those \$998,000 of payment, which in your tax return you characterized as "payment of obligation as guarantor" were the payments that you were talking about as an indebtedness.

Is that wrong?

Mr. TRAUB. It must be wrong, because most of the client's office expense, which was listed as office expense was expense arrived at when in the early part of 1951, the office assumed certain obligations based on these guaranties.

Mr. SIMON. Is it 1951?

Mr. TRAUB. That the agreement was signed?

Mr. SIMON. I was talking to you about your 1950 tax return.

Mr. TRAUB. That was also listed as office expense because they were based on guaranties that I had previously made.

Mr. SIMON. In 1950, Mr. Traub, or in your 1950 income-tax return, you took \$410,718 as payments of obligations as guarantor. The \$80,000 of miscellaneous expenses for clients, shown on your return, is in addition to the \$410,000 of payments on obligations as guarantor?

Mr. TRAUB. That is right.

Mr. SIMON. Aren't they different from the payments of obligations as guarantor?

Mr. TRAUB. I don't think so.

Mr. SIMON. Did you keep any records of the people to whom you owed money and the payments that you made to them?

Mr. TRAUB. Yes.

Mr. SIMON. Where are those records?

Mr. TRAUB. I think I have most of those records.

Mr. SIMON. We have been trying for quite some time now to get the records which would show what obligations these payments to cash were for.

In addition to the \$8,000 one I have just read, on December 21, there is a \$3,000 payment to cash; December 20, a \$2,500 payment to cash; December 7, a \$5,000 payment to cash, and so on for a total of \$60,000 to cash, in 1950, charging all of it to "miscellaneous expenses for clients."

Mr. TRAUB. I don't know how it was charged, but I note here a payment of the past indebtedness.

Mr. SIMON. To whom were those payments made?

Mr. TRAUB. Most of the cash payments were made to Schoenfeld.

Mr. SIMON. Were there Schoenfeld payments on your obligation as guarantor?

Mr. TRAUB. Yes.

Mr. SIMON. I am not talking about those payments which your tax return shows total \$410,000 in 1950. I am inquiring with respect to the \$60,000 of cash payments charged as "miscellaneous expenses for clients."

Mr. TRAUB. They were in the same category.

I mean they arose in the office on account of guaranties.

Mr. SIMON. How can you call those expenses for clients?

Mr. TRAUB. I didn't call them that. I had nothing to do with the entries.

Mr. SIMON. You say the bookkeeper put them in wrong; is that it?

Mr. TRAUB. I don't know how they put them in.

Mr. SIMON. Don't you ever look at your books?

Mr. TRAUB. I testified several times, I never look at those books.

Mr. SIMON. Is there any human way in which we can find who got these sums of cash in round figures, like \$5,000 and \$6,000 and \$8,000, that are shown on your books as "miscellaneous expenses for clients"?

Mr. SCHEINBERG. I would suggest, Mr. Simon, that this question had been asked in one form or another at 3 or 4 hearings, probably 15 or 20 times.

The CHAIRMAN. Don't be surprised if it isn't asked 15 or 20 times more until we get the answer, because we are entitled to the answer.

Mr. SCHEINBERG. I believe it has been given to the best of the witness' ability.

The CHAIRMAN. You mean the witness is telling us that he does not know and he has no records to show?

Mr. TRAUB. I did not say that, Senator.

The CHAIRMAN. Then what did you say?

Mr. TRAUB. I say, I am fairly sure that I have records showing the entire indebtedness as it originally existed February 1949, and what payments were made.

Mr. SIMON. Where are those records?

Mr. TRAUB. They are in my office.

Mr. SIMON. They weren't given to us previously.

Mr. TRAUB. You asked for my books and records. It has nothing to do with my books and records, as far as the indebtedness—

Mr. SIMON. What are these records?

Mr. TRAUB. These are records of an indebtedness that existed prior to February 1949.

Mr. SIMON. And do they indicate the payments made on them?

Mr. TRAUB. Well, I think my accountant has all the payments that were made on them.

Mr. SIMON. We have had him in here, and under oath he denies having any of those records. That is Mr. Greenberg?

Mr. TRAUB. That is right.

Mr. SIMON. He denies having any records.

When did you last ask him if he had records showing who got these payments?

Mr. TRAUB. I haven't asked him that specific question.

Mr. SIMON. Well, Mr. Traub, you have told us many times about a lot of these payments to cash being on account of these indebtednesses.

Mr. TRAUB. That is right.

Mr. SIMON. And with Mr. Greenberg's help we have separated the collections payable to cash that you charged for income-tax purposes as payments on the guaranties, from those which you took on your income tax, as an expense of clients, and we are, for the moment at least, bypassing the collection to cash that you took as payments on guaranties.

We now have, at least as far as your own books are concerned, segregated the checks to cash which you charge as expenses of clients, and in the year 1950 we have \$60,000 in total. Now, how can we find out who got that specific \$60,000, and what it was for?

Mr. TRAUB. I am of the opinion that if I went through these books and records that I have with regard to the indebtedness that I have, I might be able to explain that to you. I haven't seen these books—the last time I saw these books were in Mr. Wiseman's office, and I—

Mr. SIMON. Mr. Traub, we first talked to you about this matter in July, and you resisted all of our efforts to get the books, and it was only a week ago Monday that the chairman, and the other members of the committee, finally ordered you to give us the books.

Mr. TRAUB. I don't think that is a fact, Mr. Simon. You were looking only for the Farragut project. All the questions were directed to that. They weren't directed to the overall picture.

Mr. SIMON. We first asked you questions on the overall picture in August, in New York, in the public hearings.

Mr. TRAUB. In August; that is right.

Mr. SIMON. In July we started with Farragut. In August we went into all of them in public hearings.

Mr. TRAUB. August 26; that is right.

Mr. SIMON. And we still haven't been able to find out who got this money.

Mr. TRAUB. Well, I have often tried to speak to you and explain the entire situation to you in executive session, which I did not think should be brought out in this manner. I have tried to do that with Mr. Hogue. It isn't a thing that can be done in a 5- or 10-minute session. It is something that involves 5 or 10 years.

Mr. SIMON. You have been on the witness stand a total of 7 or 8 hours since we started, and I understand that you say that a lot of this money went to a man named Schoenfeld, who is now dead, but, as I understand it from you—and I would be glad to be corrected if I am wrong—the cash you paid to Schoenfeld is cash on account of these guarantor obligations; is that right?

Mr. TRAUB. On account of some of them, yes.

Mr. SIMON. We are now asking you, though, not about that cash but about the cash which on your tax return you stated was expenses for clients.

Mr. TRAUB. I can't answer that at this time, Mr. Simon, without going over the records and the books.

Mr. SIMON. You can't tell us what clients the expense was for?

Mr. TRAUB. There was no expense for any client. It was all on account of indebtedness.

The CHAIRMAN. Both the \$80,000 and the 400 and some?

Mr. TRAUB. Yes, sir; all of it.

The CHAIRMAN. Why did you list it "miscellaneous expense for clients"?

Mr. TRAUB. I had nothing to do with the listings.

The CHAIRMAN. Your bookkeeper did?

Mr. TRAUB. Apparently. I didn't make one entry in those books, Senator.

Mr. SIMON. In 1952 you listed in your tax return \$161,798 as payments of obligations as guarantor, and then you listed \$106,745 as miscellaneous office expenses. Are you telling us that those are the same things, too?

Mr. TRAUB. I didn't list them, Mr. Simon. Again I said I had nothing to do with the listing of the books.

Mr. SIMON. Who signed your income-tax return?

Mr. TRAUB. I did.

Mr. SIMON. Did you read it before you signed it?

Mr. TRAUB. I apparently did.

Mr. SIMON. Isn't it fair to say that you listed them when I read you what is off your own income-tax return that you have signed?

Mr. TRAUB. When you say "listed originally," you didn't mention income-tax returns, you were referring to the books, I assume.

Mr. SIMON. I am now talking about your 1952 income-tax return which lists \$161,798 as "payments of obligations of guarantor," and it lists \$106,745 as miscellaneous office expense, and I am trying to find out what the \$106,000 of miscellaneous office expense is about.

Mr. TRAUB. I can't tell you without making a study of it, Mr. Simon.

Mr. SIMON. Well, of course, we heard that in August or September. When is this study going to be made?

Of the \$106,000 of miscellaneous office expense in 1952, \$59,400 of it is checks payable to cash. Now, when can you tell us who got that \$59,400, and what it was for?

Mr. TRAUB. I imagine when I get my books back I can make a study of it.

Mr. SIMON. You have had your books for a number of years up until a week ago Monday. We have had them only 10 days.

Mr. TRAUB. I haven't looked at these books. I have told you that several times.

Mr. SIMON. You might not have looked at them, but you have had them, Mr. Traub.

Mr. TRAUB. Yes; I have had them.

The CHAIRMAN. You were the attorney for how many builders in New York who dealt in FHA guaranteed mortgages?

Mr. TRAUB. As many as 15 or 18. But all the builders who dealt in FHA mortgages, Senator, were clients of mine long before FHA.

The CHAIRMAN. I don't question that. I don't question that. But you were the attorney for them?

Mr. TRAUB. Yes, sir.

The CHAIRMAN. Did you ever collect any funds, or did they collect any funds from the builders in New York for any specific purpose, like an association?

Mr. TRAUB. Did I personally? No.

The CHAIRMAN. Did they ever turn them over to you?

Mr. TRAUB. No, sir.

The CHAIRMAN. Any fund over to you for that purpose?

Mr. TRAUB. No, sir.

Mr. SIMON. How frequently did you come down to Washington to see Clyde Powell?

Mr. TRAUB. I would say maybe 4, 5, 6 times a year.

Mr. SIMON. How frequently did you telephone him or did he telephone you?

Mr. TRAUB. Maybe 10, 12 times a year.

Mr. SIMON. I think you will find it is more frequently than that, Mr. Traub, because his office kept records of that.

Mr. TRAUB. When I say maybe 10, 12 times a year, maybe sometimes I called him once, and some years maybe I called him 16 or 17 times, but on the average 10 or 12 times a year.

Mr. SIMON. Is that his calling you or you calling him?

Mr. TRAUB. Mostly my calling him.

Mr. SIMON. How many times did he call you?

Mr. TRAUB. Oh, maybe 3 or 4 times a year, or 5 times.

Mr. SIMON. I would just like to ask this once more in the hope that we can find some solution. We have the staff of the General Accounting Office, which means thousands of auditors who are available to the committee.

Is there any way in this world that we can find out who got these sums of cash that you paid out?

Mr. TRAUB. Mr. Simon, Senator Capehart on 1 or 2 occasions has made a statement that he would like anybody who thinks that they were improperly accused to send in a letter of clients and he would treat it accordingly. It is my intention——

Mr. SIMON. I think what he said was that anybody who felt they were unfairly commented on could have every opportunity to come down and be heard and tell their side of the story.

Mr. TRAUB. I don't know about being heard, but he said if they sent in a letter it would be given proper——

The CHAIRMAN. I said it, and I mean it.

Mr. TRAUB. Senator, I intend, when I get these books back, to spend the next couple of weeks after that to prepare my statement for you.

The CHAIRMAN. Let me say this, then: Will you promise me that if we will assign a couple of General Accounting Office auditors to your case that you will cooperate and work with them and the three of you bring in the answers here, on November 9?

Mr. TRAUB. Senator, I can't promise you the date, but I make this suggestion to you, if I may——

The CHAIRMAN. Let us do it this way: We will excuse you until November 9, and in the meantime I will ask the General Accounting Office to assign 1 or 2 men to cooperate with and work with you. You cooperate with and work with them, and then we will take a look on November 9 and see how far we have gotten.

Mr. TRAUB. Well, Senator, may I make this suggestion: I would like to prepare my statement for you, but I can't do it without my books, now, going through them.

The CHAIRMAN. Suppose we return the books to you and assign two General Accounting men to help audit them, or audit them, and look for certain information. Will you cooperate with them?

Mr. TRAUB. I will be glad to.

The CHAIRMAN. And you will not attach the same terms that you did before, namely, that they cannot take anything off your books without showing it to you?

Mr. TRAUB. Senator, where would the books be?

The CHAIRMAN. We will put them right back up in your office where you can have free and complete access to them, and answer all the questions that they ask you, to the best of your ability.

Mr. TRAUB. I will be glad to, Senator.

The CHAIRMAN. And have all your employees do likewise?

Mr. TRAUB. I would be glad to.

The CHAIRMAN. We would be very happy to help you straighten this matter out because it looks like it is very confused.

Mr. TRAUB. It can be straightened out. It is a confused matter, and I have vowed to appear before Mr. Simon—

The CHAIRMAN. We will simply extend your subpoena until 10 o'clock, November 9. In the meantime, you work with a couple of GAO accountants who we will assign.

Mr. SIMON. This will be in your office.

Mr. TRAUB. I would rather it would be in Mr. Wiseman's office.

Mr. SIMON. I understand that won't work.

The CHAIRMAN. Our Mr. McManus of the GAO wants it done in your office.

Mr. TRAUB. I don't think that is advisable. He won't have the convenience that he will have in Mr. Wiseman's office.

The CHAIRMAN. If we are going to be partners in this endeavor let us have our way once.

Mr. TRAUB. I haven't got the room in my office.

The CHAIRMAN. You have other records in there?

Mr. TRAUB. Call for them and I will bring them over.

Mr. SIMON. Would it be possible at the committee's expense to rent a little room next door to your office?

Mr. TRAUB. If you can find one it will work out very well, but I don't know whether you will be able to find one, Mr. Simon.

Mr. SIMON. The accountants say that it can be done more expeditiously in your office.

Mr. TRAUB. Mr. Simon, I don't want to say it cannot be done in my office, but there is no room.

Mr. SIMON. How big an office do you have?

Mr. TRAUB. It is very, very, very much overcrowded, and I haven't got the room. Now, I am willing to pay for the expense of them hiring a place if they want to, but it cannot be done in my office.

The CHAIRMAN. Will you pay the rent on a space away from your office, and away from your attorney's, in which the books can be audited, and you work with our fellows, and they will work with you?

Mr. TRAUB. Yes.

The CHAIRMAN. And you will give them access to everything you have in your office?

Mr. TRAUB. Yes, but the reason I don't want them in my office, I don't want them to come back and say I didn't cooperate with them because they haven't got the room in my office.

The CHAIRMAN. I understand.

You are excused until 10 o'clock November 9.

Mr. TRAUB. Thank you.

Does that mean I have to be back here, Senator?

The CHAIRMAN. That is what it says. They will start working with you.

Thank you very much.

Mr. Chaite.

**TESTIMONY OF ARTHUR M. CHAITE, WASHINGTON, D. C.—Resumed**

Mr. SIMON. Mr. Chaite, you have previously been sworn?

Mr. CHAITE. Yes.

The CHAIRMAN. This is a continuation of your testimony this morning, and it won't be necessary to swear you in at this session.

Mr. SIMON. We have here a debit memorandum of the bank, Seat Pleasant Bank, at Seat Pleasant, Md., for a certified check that they certified to the account of Jonathan Woodner Co., for \$5,000 to your order, April 6, 1946.

This morning you couldn't remember it. You now have checked your records. Can you tell us what that is for?

Mr. CHAITE. I still don't remember.

Mr. SIMON. You still don't remember?

Mr. CHAITE. No.

Mr. SIMON. Are you prepared to say you didn't get the \$5,000?

Mr. CHAITE. All I say is that I don't remember.

Mr. SIMON. You don't know whether you got it or not? You won't commit yourself; is that right?

Mr. CHAITE. I just don't remember.

Mr. SIMON. I have before me a check dated February 7, 1949.

Mr. CHAITE. Mr. Simon, I just went through a whole hour of that with your assistant, Mr. Sells. Must we repeat the thing again?

Mr. SIMON. Yes, sir. That was the purpose of his going through it, so we would know what we have.

Mr. CHAITE. Why don't he just tell you what my answers were?

Mr. SIMON. Because you are under oath here, and your answers count. In there you were just talking, and the answers didn't count.

Mr. CHAITE. I see. O. K.

Mr. SIMON. This check is February 7, 1947, in the amount of \$1,250, payable to your order and cashed at the Riggs National Bank—no, I am sorry. It was cashed at the Liberty National Bank.

Mr. CHAITE. May I see the check?

What do you want to know about this check?

Mr. SIMON. I want to know if you got the proceeds of it.

Mr. CHAITE. Yes.

Mr. SIMON. You did?

Mr. CHAITE. Yes.

Mr. SIMON. What did you do with them?

Mr. CHAITE. Deposited them in my bank account.

Mr. SIMON. What was it for?

Mr. CHAITE. I don't know.

Mr. SIMON. Was it for a payment of a fee?

Mr. CHAITE. I don't remember.

Mr. SIMON. Was it money that you were to give to somebody else?

Mr. CHAITE. No.

Mr. SIMON. Was it traveling expense?

Mr. CHAITE. I don't know.

Mr. SIMON. You don't have any idea what it was for?

Mr. CHAITE. Just deposited to my account.

Mr. SIMON. Was it a belated Christmas gift?

Mr. CHAITE. Do I have to answer that?

Mr. SIMON. You don't have any idea what it was for?

Mr. CHAITE. Do I have to answer your question about the Christmas gift?

Mr. SIMON. Is it your testimony that you don't know what it was for?

Mr. CHAITE. That is right, except that I deposited it to my account.

Mr. SIMON. This check of September 1, 1947, for \$5,000 which you testified about this morning, that it had your signature on the back. Are you now able to tell us what it was for?

Mr. CHAITE. No, Mr. Simon.

Mr. SIMON. You have no idea what that \$5,000 was for?

Mr. CHAITE. No, sir.

Mr. SIMON. Do you admit you got the \$5,000?

Mr. CHAITE. I don't admit anything.

Mr. SIMON. I assumed you admitted it was your signature on the back of it.

Mr. CHAITE. That is all I admit.

Mr. SIMON. You admit your signature on the back?

Mr. CHAITE. That is right.

Mr. SIMON. But you don't admit you got the money?

Mr. CHAITE. I don't know anything about it.

Mr. SIMON. What did you do with the check when you put your signature on the back?

Mr. CHAITE. I don't know.

Mr. SIMON. You don't know?

Mr. CHAITE. No.

Mr. SIMON. You don't have any idea?

Mr. CHAITE. No.

Mr. SIMON. Are you accustomed to passing out \$5,000 checks to people? Endorsed in blank?

Mr. CHAITE. No; I am not.

Mr. SIMON. Do you deny that you got the proceeds of that check?

Mr. CHAITE. I don't deny a thing, except that I have no recollection of this check.

The CHAIRMAN. I hand you a check dated October 12, 1950, made out to Arthur Chaite, in the amount of \$5,796.40, endorsed by Chaite, and under endorsement "Stuckey," and ask you if you can remember what that check was for, and did you get the proceeds?

Mr. CHAITE. No recollection of this check.

The CHAIRMAN. Is that your signature?

Mr. CHAITE. Yes; it is my signature.

The CHAIRMAN. Did you get the proceeds?

Mr. CHAITE. I don't remember a thing about this check, at all.

The CHAIRMAN. No recollection at all?

Mr. CHAITE. No, sir.

The CHAIRMAN. It might interest you to know that Mr. Stuckey testified about an hour ago that you and he cashed the check, and that he gave the proceeds to you. Are you in a position to say that that was an untrue statement?

Mr. CHAITE. I am not in a position to say anything except that I have no recollection of this transaction at all, Senator.

The CHAIRMAN. Is your testimony the same on all these checks?

Mr. CHAITE. Oh, no; we have gone through quite a long list.

The CHAIRMAN. Proceed to go through them one by one.

Mr. SIMON. I show you a check dated May 5, 1950, and ask you if you got the proceeds of that check?

Mr. CHAITE. Yes; I believe I did. This is a check that I O. K.'d for cash and it was cashed.

Mr. SIMON. Who is Miriam Chaite?

Mr. CHAITE. My wife.

Mr. SIMON. Why would she have cashed the check?

Mr. CHAITE. Because she is my wife.

Mr. SIMON. What did she do with the money?

Mr. CHAITE. Gave it to me.

Mr. SIMON. What did you do with the money?

Mr. CHAITE. I don't know.

Mr. SIMON. You don't know what you did with it?

Mr. CHAITE. No.

The CHAIRMAN. What is the amount of the check?

Mr. CHAITE. \$500.

The CHAIRMAN. I send up 3 checks, 2 of them in the amount of \$500, and 1 in the amount of \$1,000, dated November 6, October 12—2 of them November 6—endorsed by yourself and Mr. J. Richard Stuckey, and I ask you if you remember now, since you have had a chance to refresh your memory, whether you received the proceeds of those checks and, if so, what was the purpose of the checks, why were they paid to you?

Mr. CHAITE. What is your question, Senator?

The CHAIRMAN. Did you receive the proceeds of those checks?

Mr. CHAITE. I may have because they say they are for travel advances.

Mr. SIMON. What did you do with the money?

Mr. CHAITE. Spent it.

Mr. SIMON. For what?

Mr. CHAITE. Travel.

Mr. SIMON. Do you have any record of where you spent it?

Mr. CHAITE. The vouchers for every check that I have got for travel are in the Jonathan Woodner Co. files.

Mr. SIMON. Did you account for all this money?

Mr. CHAITE. Oh, yes, there are bills, hotel receipts—everything that I spent.

The CHAIRMAN. Why did Mr. Stuckey have to accompany you to the bank and sign those checks?

Mr. CHAITE. If they were cashed at the Riggs National Bank no one knew me there.

I haven't seen those checks—

Mr. SIMON. How about the \$5,700? Did you get that?

Mr. CHAITE. I don't know a thing about that check. It is such an unusual amount.

Mr. SIMON. Mr. Stuckey testified that you got the money.

Mr. CHAITE. I don't remember.

Mr. SIMON. If you don't remember you wouldn't remember what you did with the money, would you?

Mr. CHAITE. That is right.

Mr. SIMON. I have 6 checks here, 5 of them are for \$500 each, and 1 of them for \$1,000. All round numbers. You testified this morning they all bore your endorsement. Can you tell us, first, whether you got the money and, secondly, what you did with it?

Mr. CHAITE. One of these has an endorsement "O. K.'d for cash" by me, so we can assume that I got the cash.

This one in 1946 I have no memory of at all, and I have no records for 1946.

These in 1950, all say "Travel advance," and we can assume that I cashed these checks and kept the money.

Mr. SIMON. What did you do with the money?

Mr. CHAITE. Spent it.

Mr. SIMON. For what?

Mr. CHAITE. Travel.

Mr. SIMON. Travel where?

Mr. CHAITE. All over the country.

Mr. SIMON. Do you have any record of what you spent for how much?

Mr. CHAITE. There is a voucher for every check in the files of the Jonathan Woodner Co.

Mr. SIMON. Where?

Mr. CHAITE. I don't know where. I don't keep the records of the Jonathan Woodner Co.

Mr. SIMON. Did you keep any records of your own?

Mr. CHAITE. Except the voucher I have no record because I submit the voucher in order to get my checks.

Mr. SIMON. You admit you got the money?

Mr. CHAITE. Yes.

Mr. SIMON. But you can't tell us what you did with it?

Mr. CHAITE. I spent it.

Mr. SIMON. But you can't tell us what you spent it for?

Mr. CHAITE. No.

Mr. SIMON. Do you render a bill and keep a duplicate of all the bills that you rendered to the Woodner Co.?

Mr. CHAITE. No, sir; I didn't keep a duplicate, but in 1950 and 1951 I kept a cash expenditure record of days and the cities I went to, and I don't have it for 1950. I don't know whether I started in 1950, or whether I just didn't do it.

Mr. SIMON. Did you report this income in your income-tax returns for these years?

Mr. CHAITE. No, sir.

Mr. SIMON. You did not?

Mr. CHAITE. No, sir.

Mr. SIMON. And even those three- four-, and five-thousand dollar checks, they are not recorded in your income tax?

Mr. CHAITE. I don't know a thing about them.

Mr. SIMON. You do admit your signature is on the back of them?

Mr. CHAITE. That is right.

Mr. SIMON. And you are the only one who could have done that?

Mr. CHAITE. Yes; you are right on that.

The CHAIRMAN. I see we are getting no place here because while it seems to be serious to us it doesn't seem to be very serious with you. So what we are going to do, I am going to order the General Account-

ing Office to completely audit your books. Don't you move any of them. We will turn the entire matter over to the Internal Revenue Service, and turn the entire matter over to the Attorney General, and we are going to excuse you until 10 o'clock on November 9.

Mr. CHAITE. I am going to break the world's record for a person who is here.

The CHAIRMAN. I think you are going to break more than that before we get through.

Mr. CHAITE. All right, Senator.

The CHAIRMAN. I see nothing funny about it at all. Here is the Woodner Co. with all these thousands and thousands of dollars' worth of checks made payable to you and others, and they can't tell us to whom they are payable and for what purpose. Here you received \$155,610.31 worth of checks from the Woodner Co. when you previously testified that you only received \$66,000. You now admit on every check we have showed you, the \$155,000, that it was your signature on the back. Yet you sit there and laugh and sneer and make no effort to assist this committee.

Mr. CHAITE. Senator, are we still in the hearing?

The CHAIRMAN. We certainly are.

Mr. CHAITE. I am sorry, and I deeply apologize to you if you think I am laughing or sneering.

The CHAIRMAN. Well, sitting up here I could only come to one conclusion, I am sorry to say.

Mr. CHAITE. I merely repeat, Mr. Simon faces me, and when he laughs at me I laugh back at him. He has a very mobile face, you know.

You must remember this, Senator: I traveled extensively for a period of 2 years, 2 and 3 days out of each week. I purchased \$6 million worth of real estate. That is a lot of money, and there is a lot of work involved in that. The money I spent in travel, believe me—

The CHAIRMAN. It is awful strange to me that when the Woodner people didn't know what these checks were for—

Mr. CHAITE. That I can't help.

The CHAIRMAN. Wait a minute.

Mr. CHAITE. I am sorry. I apologize.

The CHAIRMAN. When we first approached them they didn't know what they were for. When we first approached you, you didn't know what they were for, and you still don't know what they are for.

Now you say that you traveled and bought real estate. \$155,610 is a—

Mr. CHAITE. As a matter of fact, I think—

The CHAIRMAN. Is a lot of travel.

Mr. CHAITE. Mr. Simon's records will show that in an executive session I gave a complete list and the value of all the real estate I bought.

Mr. SIMON. And our records also show, Mr. Chaite, that at least once, and I think twice, you told us under oath that you never had any business dealings with Mr. Woodner before 1950, and we now have a substantial number of checks before 1950 that you admit have your endorsement on them.

Mr. CHAITE. And I will admit to you if I said that I was wrong because I told you later that I did have Target Valley Wood Products deal with Mr. Woodner in 1946.

Mr. SIMON. And you had several other deals with him between 1946 and 1950.

Mr. CHAITE. No, I haven't.

Mr. SIMON. Well, at least there were several other checks issued to you in that period that you admit have your endorsement on them.

Mr. CHAITE. That is right, but I didn't have any other deals with him.

Mr. SIMON. What could those checks possibly have been for if you had no dealings with him?

Mr. CHAITE. I don't know.

The CHAIRMAN. Here is a check dated April 5 for 1950, \$500; May 8, 1946, \$65; May 23, 1946, \$15,000; August 31, 1946, \$5,000; in 1947, another \$5,000 check—that is about \$25,000 or \$30,000.

Mr. CHAITE. Senator, on that list that you have—and remember, I have never seen those checks that you have been talking about up until a half hour ago—I have admitted to and deposited over \$70,000 worth, and paid income tax on it. There is a \$25,000 check in there made out to me which I transferred for the purchase of ground.

Now, if you take that \$25,000 off, the \$15,000 that I know nothing about, as far as Target Valley is concerned, the seventy-some-odd-thousand dollars that I admitted in receiving, there is no great discrepancy there.

Mr. SIMON. There is still a discrepancy of many, many thousands of dollars.

Mr. CHAITE. Nothing in comparison to the amount of business we did.

The CHAIRMAN. Where did you spend the \$25,000?

Mr. CHAITE. I paid the man I bought the ground from.

The CHAIRMAN. The check was made out to you for \$25,000, and you bought real estate in San Antonio?

Mr. CHAITE. It was made out to me as trustee. I opened up a special trustee account and drew the money out of that account.

Mr. SIMON. With all that, Mr. Chaite, we are still more than \$50,000 missing?

Mr. CHAITE. I don't think so, Mr. Simon.

Mr. SIMON. Let me ask you this: When you cashed these \$500 and \$1,000 checks at the Riggs Bank—and there are a lot of them, you will agree—what denominations in currency did you get?

Mr. CHAITE. I don't know. Whatever the teller gave me.

Mr. SIMON. They weren't hundred dollar bills or twenty dollar bills?

Mr. CHAITE. Well—

Mr. SIMON. Are you sure of that?

Mr. CHAITE. I don't know what they were. Whatever the teller gave me.

The CHAIRMAN. You are excused until 10 o'clock November 9. I am now ordering the General Accounting Office to audit this gentleman's books, and we are going to solicit the help of other departments of the Government.

We are about ready to recess now until November 9, and we now have four witnesses, Mr. Traub, Mr. Chaite, Mr. Lister, and Mr. De-Gracio; wait a minute. We are not recessing yet.

Is Dr. James Kehoe here, please? He is coming in to testify in behalf of Mr. McCormack. We sent him out there on Mr. McCormack's case.

I am going to ask Mr. Dinkins, a member of our staff, an attorney who handled the executive sessions with the 2 gentlemen this morning from West Virginia, and also the executive session that he had with 2 other gentlemen from West Virginia in respect to the Diggs-McCormack matter—you have heard Mr. Diggs testify this afternoon, and Mr. McCormack brought to him some 12 cases. He and McCormack handled them together, and they split the fees of some \$60,000, and the purpose of the fees, they were paid \$60,000 for trying to get some FHA and governmental—the Army, Navy, and Air Corps commitments to build Wherry house projects—this is a correct statement; isn't it?

Mr. SIMON. Yes, sir.

The CHAIRMAN. And Mr. Dinkins handled the executive sessions.

We asked these questions of 2 witnesses this morning that we are now told should have been asked of 2 other witnesses from West Virginia.

Mr. Dinkins, will you give us the facts so that the record will be straight?

**TESTIMONY OF CLARENCE M. DINKINS, ASSISTANT COUNSEL,  
BANKING AND CURRENCY COMMITTEE—Resumed**

Mr. DINKINS. Several weeks ago I prepared a memorandum and summarized the testimony of a number of witnesses, and from this memorandum I quote this statement, referring to the testimony of Mr. Carson and Mr. Hill, who testified in executive session.

The CHAIRMAN. I forgot to swear you in.

Do you solemnly swear that the testimony you are about to give in this matter will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DINKINS. I do, sir.

The CHAIRMAN. I am sorry.

Mr. DINKINS. This refers to the testimony of Mr. Carson and Mr. Hill that they gave in executive session on August 25, and I quote from the memorandum:

Both Carson and Hill have testified that McCormack told them in effect that Diggs was virtually the father of the Wherry Act, knew influential people connected with the Government, and gave the definite impression that upon payment of retainer to Diggs they were almost certain to secure a Wherry Act project. They also got the impression that McCormack was a former Member of Congress, and that E. C. Bennett was a State senator from West Virginia.

I would like to say that two of these statements are in error. The one that referred to Diggs as virtually being the father of the Wherry Act, and the second statement which made some references to McCormack being a former Member of Congress, and E. C. Bennett being a State senator from West Virginia.

The excuse for this error is that we had 2 groups of witnesses who testified from West Virginia regarding the same subject matter, and the 2 statements which I have just referred to were made in connection with the Diggs transaction by witnesses from West Virginia, but not by either Mr. Carson or Mr. Hill, but in this statement there are 2 other references, one to Mr. Diggs knowing influential people, and the second

one was that these people had virtually been promised a successful project under the Wherry Act, and I would like to make 2 references to the record just those 2 statements.

The CHAIRMAN. You may proceed.

Mr. DINKINS. At page 9446 Mr. Carson was asked :

Did the question of influence come up in conversation at all?

and the answer is :

Well, I don't believe Mr. Diggs ever alluded to influence or friends. I think perhaps Mr. McCormack 1 or 2 times stated Mr. Diggs had influential friends, and was a former, I believe, Comptroller of the Currency, or something of that nature.

And then on the question of their assurance about getting a Wherry Act project, I would also like to quote from the record at page 9460, which covers a letter written by the Penn-Hill Co. to Mr. Carl Shipley on April 24, 1951.

The CHAIRMAN. According to whom?

Mr. DINKINS. Carl Shipley. He was the lawyer who handled the litigation.

The CHAIRMAN. What litigation?

Mr. DINKINS. A suit that they filed against Mr. Diggs.

The CHAIRMAN. Who filed, Mr. Carson and Mr. Hill?

Mr. DINKINS. Well, it wasn't Mr. Carson and Mr. Hill.

On our mimeographed list of witnesses Mr. Carson is shown as a partner in the Penn Hill Construction Co. That is in error. It is Mr. Hill that is a partner in the Penn Hill Construction Co., and Mr. Carson is the president of an insurance and bonding company in West Virginia.

The suit was brought as a result by the Penn Hill Construction Co. against Mr. Marshall Diggs.

The CHAIRMAN. For a return of a part or all of the \$5,000?

Mr. DINKINS. That is correct, they asked for the return of the \$5,000; there was judgment by default, and finally the case was settled by payment of \$3,000 to the Penn Hill Co. by Mr. Diggs.

In this letter to Mr. Shipley who filed this suit for them, I would like to quote this part :

On February 20, 1950, we talked to Marshall Diggs and Robert Tarney in regard to construction of housing for military and civilian personnel at or near military and naval installations. They assured us that they could represent us successfully in this matter, and requested an immediate fee of \$5,000.

I just quoted those 2 excerpts, Senator, because it completes the accuracy of my memorandum, except for the 2 errors which I was glad to correct.

The CHAIRMAN. Messrs. Hill and Carson, do you wish to say anything at the moment? Does that clear up the record as far as your understanding is correct?

Mr. CARSON. That is correct.

Mr. HILL. That is correct.

I would like to say I deeply appreciate this being done.

The CHAIRMAN. We always just try to get the facts, and I again want to say we have been going on here now for 4½ months. If any witness or any person whose name may have been mentioned inadvertently or otherwise by any witness feels that he was injured in any way, and the facts were other than as given before us, they have

the right to come in and we will hear them in November, or they may file a statement with us, or file a brief, and we will see that it is made a part of the record.

We have repeatedly said that in every hearing we have ever had, and we are happy to repeat it again. We are only interested in the facts. All this committee or any committee in the Congress can do is simply try to bring out the facts. We do not sit as judges. We are not saying whether things are right or wrong, all we are trying to do is bring out the facts. It is not always easy.

We are about ready now to recess until November 9, and while this completes the present phase of our investigation we are now going to write an interim report which I am sure will take us 4 or 5 weeks, or 6. It will be necessary for each member of this committee—and there is the full committee, to course—to approve the report, write a minority report, or write individual views, and those things take many weeks, you know.

We will now proceed to write an interim report. The investigation will go on, with a smaller staff, and we will hold hearings again at 10 o'clock on November 9.

Now, is there anybody here who knows any reason why we should not now recess?

Thank you.

(Whereupon, at 4 : 20 p. m., the committee recessed.)



## FHA INVESTIGATION

TUESDAY, NOVEMBER 9, 1954

UNITED STATES SENATE,  
BANKING AND CURRENCY COMMITTEE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., Senator Homer E. Capehart (chairman) presiding.

Present: Senator Capehart.

Also present: Charles E. Sells, T. T. Kenney, and Clarence M. Dinkins, assistant counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order. We do not have any other Senators here this morning. Off the record.

(Discussion off the record.)

The CHAIRMAN. We have on our agenda this morning five witnesses, the first of whom is Mr. Rocco de Grazia, of Chicago. We tried to subpena Mr. de Grazia in September and are still trying to subpena him. So far the United States marshals have been unable to find him, unable to subpena him, and I guess he is not here this morning; is he?

Is Mr. de Grazia present, Rocco de Grazia?

(No response.)

The CHAIRMAN. He is not here. I presume he isn't, since we haven't been able to serve him with a subpena.

I just want to say to Mr. de Grazia that we will get him sooner or later and he might as well recognize that fact and might as well surrender to a United States marshal and be willing to have a subpena served on him. We will not only keep after him the balance of this year, but we will keep after him next year and the next year. The Committee on Banking and Currency has complete jurisdiction over housing and our present resolution—which I believe is No. 229, the resolution under which we are working—even though that expires on February 1, this committee has the power and right to issue a new subpena under its jurisdiction as a standing committee and that is exactly what we will do. I have already discussed the matter with the ranking minority member of the committee, Mr. Fulbright, and Mr. de Grazia might as well recognize now that he will not be able to avoid subpena. We will eventually catch up with him.

And that goes for every other person in similar circumstances. I have an idea that we should never permit, a congressional committee should never permit, anyone to avoid a summons. As long as I am a member of this committee, chairman of it, or ranking minority member, we are not going to permit anybody to avoid subpoenas.

So Mr. de Grazia might just as well get it over with now as later.

Our next witness was to be Mr. Louis Lesser, of Beverly Hills, Calif. You remember he was subpoenaed to appear at our last day's

hearing in October. He was unable to appear at that time on account of sickness. He is unable to appear today on account of sickness. I ask unanimous consent to place in the record at this time a letter from Dr. V. R. Mason, of 121 North San Vicente Boulevard, Beverly Hills, Calif., setting forth the reasons why Mr. Lesser cannot appear. The letter states that it will possibly be the first of the year before he, in the opinion of the doctor, will be able to come to Washington. He will be subpoenaed at that time. He might as well recognize, if his health will permit, that he will be subpoenaed to appear before this committee. So, without objection, I place in the record the letter from Mr. Lesser's doctor, Dr. Verne R. Mason, together with a copy of the subpoena—showing that he was served with a subpoena.

(The information referred to follows:)

V. R. MASON, M. D.,  
Beverly Hills, Calif., November 3, 1954.

Senator HOMER CAPEHART,  
Senate Office Building, Washington, D. C.

DEAR SENATOR CAPEHART: The following report on the illness of Mr. Louis Lesser is respectfully submitted:

This patient has been under my professional care since September 9, 1953. At that time he complained of pain in his chest and some tightness across his chest and, at times, momentary stabbing pain over his heart. At that time his physical examination was essentially normal. His blood pressure was 130 systolic, 60 diastolic. His electrocardiogram and ballistocardiogram were normal. His heart and lungs were normal on fluoroscopy.

I saw him as a patient again on October 18, 1954. He had returned from Europe 4 weeks previously. A week before he left Europe he had dysentery and this continued until he was given some suppositories which stopped the diarrhea and the bleeding from the bowels. About a week later he caught flu and was given penicillin. Following that he felt weak and clammy. He had insomnia, heartburn, and sweats. At this time (October 18, 1954) the whites of his eyes were yellow. The blood pressure was 120/70; his temperature was 98.4° F. The liver was slightly enlarged to percussion and the spleen was felt.

The following tests were made on the dates stated:

October 19, 1954:

Urine:

PH 5.

Albumin: Trace.

Sugar: None.

Bile: Present.

Microscopic: A few w. b. c. and numerous coarse and fine granular casts.

Urobilinogen: Faintly positive in undiluted urine.

October 19, 1953:

Kahn test: Negative.

October 19, 1954:

Blood:

Hgb: 15.8 gm.

WBC: 7050; PMN, 49 percent; Lympho, 46 percent.

Sed. rate: 27 mm/hr.

PCV: 47 percent.

Total protein: 7.4 gms. percent.

October 19, 1954:

Thymol turbidity: 10 units.

Alkaline phosphatase: 8.0 units.

Inorganic phos (blood): 2.3 meg/1.

Icteric index: 37 units.

Cephalin flocculation: 4 plus, 24 hours; 4 plus, 48 hours.

November 2, 1954:

Thymol turbidity: 8.6 units.

Alkaline phosphatase: 7.0 units.

Inorganic phos: 2.4 meg/1.

The clinical history, the physical examination, the probable period of incubation and the hepatic function tests suggest strongly that the patient has an acute infectious hepatitis.

This patient has never used alcohol in excess. He was asked to remain in his room but not in bed all the time. He was put on a high starch, light vitamin diet without alcohol, spices or condiments.

It is not possible to state when this patient's recovery will be complete or when he can resume his normal activities without danger of relapse. However, it is probable that he will be able to testify in Washington after December 1, 1954.

Yours respectfully,

VERNE R. MASON, M. D.

[Marshal's civil case record No. 8400]

UNITED STATES OF AMERICA

CONGRESS OF THE UNITED STATES

To Louis Lesser; residence, 619 Trenton Drive, Beverly Hills, Calif.; office, 141 El Camino, Beverly Hills, Calif., greeting:

Pursuant to lawful authority, you are hereby commanded to appear before the Committee on Banking and Currency of the Senate of the United States, on Tuesday, November 9, 1954, at 10 a. m., at their committee room, 301 Senate Office Building, Washington, D. C., then and there to testify what you may know relative to the subject matters under consideration by said committee.

Hereof fail not, as you will answer your default under the pains and penalties in such cases made and provided.

To United States Marshall Robert W. Ware, Los Angeles, Calif., to serve and return.

Given under my hand, by order of the committee, this 14th day of October, in the year of our Lord one thousand nine hundred and fifty-four.

HOMER E. CAPEHART.

*Chairman, Committee on Banking and Currency.*

OCTOBER 20, 1954.

I made service of the within subpoena by \_\_\_\_\_ the within-named Louis Lesser, 141 El Camino, at Beverly Hills, at 1:05 p. m., on the 20th day of October, 1954.

ROBERT W. WARE.

*United States Marshal.*

By RAY M. FLEMING.

Mileage 22 at 7 cents, \$1.54.

The CHAIRMAN. At this time I want to place in the record a communication from the National Housing Agency, dated January 8, 1947, addressed to the directors of all field offices, subject: Meetings with industry.

This is a letter, together with an appendix, of a suggested pattern for the rental housing program for veterans, and meetings with industry. What this document does is show them how to promote the boys into the business. If anybody is interested in reading this, why they may do so by securing it from the official reporter here.

Without objection, that will be made a part of the record.

(The information referred to follows:)

[For immediate action]

SUGGESTED PATTERN—RENTAL HOUSING FOR VETERANS—MEETINGS WITH INDUSTRY

NATIONAL HOUSING AGENCY,  
FEDERAL HOUSING ADMINISTRATION,  
Washington 25, D. C., January 8, 1947.

To: Directors of all field offices.  
Subject: Meetings with industry.

Enclosed you will find complete instructions prepared by the directors' committee to be used as a suggested pattern or outline for conducting industry meetings to achieve the purposes of the housing program for 1947 with special empha-

sis placed on rental housing for veterans. This is in accordance with my letter of January 7, 1947.

In conducting meetings throughout your State or district you will bear in mind that these meetings are essentially industry meetings to stimulate interest in rental housing, and it is hoped that you will be able to complete your schedule of meetings within a period of 3 weeks from the time you receive these instructions.

I wish to call to your attention that these meetings are your responsibility and are to be conducted under your direct supervision and guidance, and it is recommended that you utilize the experience of the regional directors, locality expeditors and publicity men of the National Housing Agency to the best advantage. Locality expeditors will prove to be of value in this program in working with the mayor's emergency housing committees, handling matters which effect zoning changes, utility installations and expediting supplies of critical materials. We are enclosing a copy of NHA's letter to regional expeditors (enclosure No. 11), which has been prepared in conjunction with that organization and this office.

It is suggested that upon receipt of this letter you call a meeting of the section heads of your office to fully acquaint them with the details of this program and arrange for a rehearsal of the program for the key city to be conducted in the office in order that the complete staff may be thoroughly familiar with the aims that we seek to accomplish.

The Assistant Commissioner, Administrative Services, has authorized expenditures required under item 4, paragraph II, and items 3 and 4 of paragraph IV. In submitting vouchers reference should be made to this authorization.

It is essential that the program be conducted in a vigorous and aggressive manner and I urge you to act promptly.

Very truly yours,

FRANKLIN D. RICHARDS,  
Assistant Commissioner.

## SUGGESTED PATTERN—RENTAL HOUSING PROGRAM FOR VETERANS— MEETINGS WITH INDUSTRY

### I. ADVANCE ARRANGEMENTS

#### 1. SCHEDULE OR MEETINGS

##### (a) Key city (or master) conference

(1) *Time and place.*—To be held in city of insuring office not later than January 21, 1947, preferably at 10 a. m. with luncheon and afternoon session. Suitable place to be arranged.

(2) *Sponsorship.*—Such as chamber of commerce, national home builders or retail lumber dealers association, lending institutions, mortgage bankers, real estate dealers association, or mayors housing committee.

(3) *Invitational letters.*—To be mailed by FHA office to all architects, approved mortgagees, builders, manufacturers and dealers of building materials, realtors and officials of veterans organizations and organized labor of the State or district, expeditors, and other interested groups, mayors committee, etc.

Invitations should also be issued to lenders associations so that they may participate in the program and if they wish to do so present conventional plans for financing rental housing for veterans.

(4) *Letters.*—To be sent out by State and local associations of above classifications to their own membership urging attendance.

(5) *Purpose of conference.*—To outline housing program for 1947, FHA policy and explain FHA procedure for rental housing. This includes the development of all rental housing irrespective of the type of financing

(6) *Washington personnel.*—From the Washington staff to be available at some of the key city meetings.

(7) *Publicity.*—Local newspapers as well as Associated Press and United Press to be furnished releases, using the key city conference as a means of launching the statewide rental-housing program for veterans.

(8) *Suggested program (key city).*—

10 a. m. : Opening remarks, by president of the sponsoring organization.

10 : 15 a. m. : Rental housing for veterans, Director (read Mr. Foley's statement).

10 : 35 a. m. : Introduction of FHA staff-director.

- 10:40 a. m.: Rental housing under section 603, and title I, Assistant Director.  
 11 a. m.: Section 608, rental housing, member of underwriting staff (using charts).  
 11:30 a. m.: NHA representative, material outlook for 1947.  
 11:45 a. m.: The veteran's need, State housing chairman of American Legion or representative of other veterans' groups.  
 12 noon: Luncheon (introduction of officials of organizations represented; no speeches).  
 1:45 p. m.: Panel discussion and open forum; director, chairman (suggested typical panel enclosure No. 9).  
 Panel members: Assistant director, chief underwriter and unit chiefs, zone attorney and land planner, if available, NHA expediter.

(b) *Community meetings*

(1) *Schedule.*—(a) Work up schedule for night meetings in all cities with 10,000 population or more.

(b) Start immediately after key city meeting.

(c) Schedule at least 2 meetings each week, or 3 if possible for each Tuesday, Wednesday, and Thursday nights.

(d) All meetings to be attended by Director, Assistant Director, or administrative officer and member of underwriting staff, thoroughly familiar with procedures.

(e) If more than one key city meeting is desired for largest cities, arrange schedule accordingly.

(2) *Local sponsorship.*—(a) In view of the fact that practically all communities of 10,000 and over have an active chamber of commerce whose membership includes representatives of the classifications desired at the meetings, it is felt that such sponsorship would prove more suitable.

(b) If conditions are such in any city where other sponsorship would be better, seek sponsorship of other active organizations, such as lumber dealers' associations, home builders' associations, mortgage bankers, realtors, etc.

(c) Contact secretary of sponsoring group by mail, phone, or personal visit by Assistant Director (if time permits); check date of meeting as scheduled with local calendar of events; arrange meeting place; local publicity; and obtain mailing list. (See attached letter, news release, and blank form—FHA mailing list.)

(3) *Program for community meetings.*—(a) The suggested program for key city meetings can be modified to suit local conditions and fully covered within 1½ hours.

(b) Open forum instead of panel discussion can be scheduled immediately after all subjects on the program have been covered; hold all questions until the entire program has been covered; go back to the charts and invite questions on any points which have not been clearly covered.

(c) Only three FHA representatives need attend—the Director, Assistant Director, and member of underwriting staff.

(d) General observations:

(1) Make all statements clear and simple. Avoid creating impression of complicated requirements.

(2) Make clear that cheap land is often expensive in the end.

(3) Avoid encouraging poorly financed sponsorship.

(4) Accent know-how and good credit.

(5) Stress investment feature as viewed from subsequent annuity.

(6) Point out desirability of small projects in all towns of 5,000 and up.

(7) Offer complete FHA office cooperation from beginning to end of every submission.

(8) Don't make it tough; make it easy.

(9) Remember that every suitable site is the basis of a rental-housing project. If you have the site you have a deal.

## II. NEWSPAPER PUBLICITY

1. Announcement story of statewide program to be released to larger papers, Associated Press and United Press, in connection with "key city" meeting.
2. Send out news story with letter to secretary of sponsoring group.
3. Give story to larger papers, Associated Press and United Press, when schedule of community meetings is arranged.
4. Get one-column newspaper mats made of director, assistant director, and member of underwriting staff and use with news stories.

5. Use story covering visit of assistant director and announcement of local meeting.
6. Send story to secretary, sponsoring group, to be published in Sunday paper preceding meeting.
7. Story following meeting to be given to local reporter whether or not he attends meeting.
8. Suggested releases covering the above news stories are attached and properly designated.

### III. INVITATIONAL LETTERS

1. Letter No. 1 (attached) to be mailed by FHA office to all classifications in the city in which meeting is to be held, about 3 days before date of meeting.
2. Letter No. 2 (also attached) to be mailed to nearby towns, using mailing list furnished by chamber of commerce. Send out 4 or 5 days before meeting.
3. Get secretary of sponsoring group to write to nearby towns and invite representatives to meetings.
4. Send letter and news story to all nearby towns and arrange for publication of same in local papers.
5. Write heads of veterans' organizations and invite them to meeting.

### IV. CHARTS TO BE USED AT ALL MEETINGS

1. Copy for full-size showcards to use at meetings is enclosed.
2. Cards should be corrected to reflect comparable figures applying to each State and district office.
3. Directors may have as many sets of these charts painted as necessary by a local sign painter at an expense of not to exceed \$99 based on bids in letter form submitted by at least 3 signmen. Such bids should accompany the voucher submitted to cover the expenditure.
4. Wood or heavy cardboard cases in which to carry the cards may also be made for not to exceed \$5 per case.

### V. LITERATURE FOR ALL MEETINGS

1. Such literature as you may have available will be given out to all present, as they leave the meeting.
2. Rental-housing kits should be made up with the following placed in a large manila envelope (these kits should be given only to interested sponsors):
  - (a) Booklet, Rental Housing for Veterans
  - (b) Mimeograph, Outline of Procedure in 608 Projects
  - (c) 1 copy FHA Form 2013w
  - (d) 1 copy FHA Form 2013e
  - (e) Mimeo 70890, Increased Rate of Depreciations
  - (f) Mimeo 71425, 1 copy each (floor plans W-7, W-8, W-9)
3. A supply of above forms is being forwarded from Washington. Additional supply will be furnished upon request.

### VI. INTERVIEWS AFTER EACH MEETING

1. The director and member of the underwriting staff will remain over the following for the purpose of conducting individual conferences with interested sponsors. Appointments can be made immediately after the meeting.
2. The director may also take advantage of this opportunity to call on local mortgagees, deliver the handbook (if one has not already been furnished) and discuss any problem the mortgagee may have re FHA financing.
3. The underwriting staff member may look over proposed cities for rental housing in addition to conducting personal interviews.
4. The assistant director may also be utilized in conducting interviews but should go on to the next town before noon and check on arrangements for next meeting, get story in afternoon paper, arrange for story to be used following the meeting, and ask secretary of sponsoring group to have girl call the list of firms invited to the meeting. He should also call on all mortgagees and active builders urging their attendance.
5. The director should also call on mortgagees located in towns en route to the next meeting, if time permits.

## VIII. REPORTS

## 1. REPORT OF INTERVIEW

(a) The attached blank from Report of Interviews—Rental Housing will be reproduced in each office.

(b) It will be used in making a record of each interview conducted after each meeting and by personnel in the insuring office.

(c) The report should be made in duplicate, with 1 copy to the director and 1 copy in the file of the city in which the contemplated project is located.

(d) Such reports should then be used in conducting follow-up work.

## 2. REPORTS OF MEETINGS HELD

(a) A narrative report will be submitted on Friday of each week to the zone commissioner by each director on the results of the meetings held during the week.

(b) The letter should also list the interviews on rental housing conducted during the week, giving the name of the sponsor, business, and number of units contemplated.

The CHAIRMAN. And our next witness will be Mr. Lyons, a member of our staff.

Mr. Lyons, will you please take the witness stand. Will you be sworn, please?

You solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF EDWARD F. LYONS, ACCOUNTANT, BANKING AND CURRENCY COMMITTEE**

Mr. LYONS. I do.

The CHAIRMAN. Will you give your full name and address, Mr. Lyons?

Mr. LYONS. Edward F. Lyons, staff accountant.

The CHAIRMAN. You are a staff accountant for the FHA Investigating Committee?

Mr. LYONS. FHA investigation.

The CHAIRMAN. And prior to that you were from where?

Mr. LYONS. I was with private industry.

The CHAIRMAN. Private industry, yes.

Mr. Lyons, I hand you a document that shows the rental increases on windfall projects. I ask you to take not all but a portion of the projects where windfalls were obtained and work up for us and tell us whether or not FHA officials in years gone by gave these windfall-profit fellows—not only permitted them to make a windfall profit—but likewise gave them increases in rents; that is, later permitted them to increase their rents from time to time.

Mr. LYONS. Yes, sir.

The CHAIRMAN. I asked you to make up such a report for us and I ask you if that is the report you made up.

Mr. LYONS. Yes, sir.

The CHAIRMAN. And to the best of your knowledge, that is an accurate report?

Mr. LYONS. Yes, sir.

The CHAIRMAN. Based on the figures and facts that you secured from the statements filed by these builders themselves?

Mr. LYONS. This was compiled from the FHA files of the rental increases.

The CHAIRMAN. Yes.

Mr. LYONS. Granted by the FHA.

The CHAIRMAN. But it was from information furnished by the builders?

Mr. LYONS. By the builders.

The CHAIRMAN. Themselves?

Mr. LYONS. Yes, sir. They were submitted, first to the district office and then later to the Washington headquarters.

The CHAIRMAN. But it came from their own figures?

Mr. LYONS. Yes, sir.

The CHAIRMAN. And to the best of your knowledge, those are accurate figures?

Mr. LYONS. Yes, sir.

The CHAIRMAN. Now if you will hand that back to me, will you please?

Without objection, I am going to place in the record at this point the statistical information on this. But just to give you a little idea, here is Joseph B. Brunetti, a New Jersey builder, who had 5 apartment buildings in which the windfall was \$1,404,175. The number rooms in those 5 projects was 12,485. And FHA, after permitting him to make \$1,404,175 windfall profits, permitted him to raise the rents \$354,830 a year. Think of that—for 30 years. Multiply \$354,830 by 30. Permitted him to raise the rents that much.

Now this was under Mr. Powell's department. You remember Mr. Clyde Powell.

Here is Alfred Gross. You have heard a lot about Mr. Alfred Gross. That was the Glen Oaks project. There were 10 sections in that. The windfall was \$3,600,000. The number of rooms was 11,654. And they permitted him to increase the rents by \$231,681.

Here is Shirley-Duke. You heard a lot about that. It is here in Washington, or rather over in Virginia. The windfall was \$2,119,353. The number of rooms was 7,928. They permitted the Shirley-Duke people to increase rents by \$89,994.

Here is William Magazine—where is he, in Washington?

Mr. SELLS. Yes.

The CHAIRMAN. No windfall in this case, but he did get his money back—10,969 units—but they permitted him to increase rents by \$206,000.

Here is Woodner—you have heard a lot about Woodner.

On 6 projects the windfall was \$665,617; and on those 6 projects with 7,353 rooms they permitted him to increase the rents by \$193,135 each year. Multiply that by about 30, and you will get a little idea what the windfall was on the rents.

Here is Dewey Gottlieb, here in Washington. His windfall was \$1,296,900 on 2,280 rooms. They permitted him to increase the rent by \$55,685.

And so on down the line. If anyone is interested in the complete list—it covers not all but just a portion of the projects—they may secure it from the reporter.

Without objection, we will place it in the record.

Do you have any questions of this gentleman?

Mr. SELLS. No.

Mr. DINKINS. No.

The CHAIRMAN. Without objection, that will be made a part of the record.  
(The information referred to follows:)

*Rental increases on windfall projects (public hearings only)*

| Witnesses and projects                                   | Windfall  | Number of rooms | Annual rental increase | Insuring district office |
|--|-----------|-----------------|------------------------|--------------------------|
| Joseph J. Brunetti:                                      |           |                 |                        |                          |
| Richfield Village (8 sections).....                      | \$135,718 | 4,064           | \$52,153               | New Jersey.              |
| Brookchester (10 sections).....                          | 1,071,175 | 5,506           | 233,664                | Do.                      |
| Wright Village.....                                      | 144,458   | 2,056           | 34,541                 | Do.                      |
| Maybrook Gardens.....                                    | 9,695     | 1,343           | 29,704                 | Do.                      |
| Rutherford Park Apartments.....                          | 43,129    | 516             | 4,768                  | Do.                      |
| Total.....   | 1,404,175 | 12,485          | 354,830                |                          |
| Alfred Gross: Glen Oaks (10 sections).....               | 3,600,000 | 11,654          | 231,681                | New York.                |
| E. M. Bros: Shirley-Duke (6 sections).....               | 2,119,353 | 7,928           | 89,994                 | Washington, D. C.        |
| William Magazine:  |           |                 |                        |                          |
| Kirkwood Apartments (6 sections).....                    |           | 3,004           | 45,496                 | Do.                      |
| Bunker Hill Apartments.....                              |           | 110             | 1,399                  | Do.                      |
| Willston Apartments (9 sections).....                    |           | 5,519           | 81,712                 | Do.                      |
| Kenwood Gardens.....                                     |           | 2,336           | 77,555                 | Ohio.                    |
| Total.....   |           | 10,969          | 206,162                |                          |
| Ian Woodner:   |           |                 |                        |                          |
| Crestwood Lake Apartments (2 sections)....               | 79,392    | 2,166           | 19,557                 | New York.                |
| Manor Park Apartments (2 sections).....                  | 10,283    | 1,534           | 38,712                 | Delaware.                |
| Fayette Court.....                                       | 20,587    | 228             | 4,186                  | Washington, D. C.        |
| Columbia Heights No. 4.....                              | 77,294    | 1,314           | 62,136                 | Do.                      |
| Huntwood Apartments.....                                 |           | 797             | 6,408                  | Do.                      |
| University Hills.....                                    | 478,061   | 1,314           | 62,136                 | Do.                      |
| Total.....   | 665,617   | 7,353           | 193,135                |                          |
| Samuel Rodman:   |           |                 |                        |                          |
| Atlantic Gardens No. 1.....                              | 342,000   | 163             | 1,643                  | Do.                      |
| Chesapeake Terrace.....                                  |           | 810             | 4,665                  | Do.                      |
| Total.....   | 342,000   | 973             | 6,308                  |                          |
| Dewey Gottlieb: District Heights (4 sections)...         | 1,296,900 | 2,280           | 55,685                 | Do.                      |
| Bernard Weinberg:  |           |                 |                        |                          |
| Pleasantville Apartments.....                            | 228,000   | 968             | 19,515                 | New Jersey.              |
| Barrington Manor.....                                    | 482,967   | 1,350           | 34,992                 | Do.                      |
| Total.....   | 710,967   | 2,318           | 54,507                 |                          |
| George Marcus:   |           |                 |                        |                          |
| Urban Manor.....   |           | 114             | 4,200                  | Do.                      |
| Cambridge, Inc.....                                      |           | 577             | 10,386                 | Do.                      |
| Leonia Gardens.....                                      |           | 133             | 4,533                  | Do.                      |
| Total.....   |           | 824             | 19,119                 |                          |
| Fred Schneider:  |           |                 |                        |                          |
| Parkchester Court (4 sections).....                      | 120,000   | 1,100           | 16,719                 | Washington, D. C.        |
| Rhode Island, Inc.....                                   | 270,000   | 1,284           | 25,423                 | Do.                      |
| Total.....   | 390,000   | 2,384           | 42,142                 |                          |
| Charles Rose: Jefferson Village (10 sections)....        | 281,435   | 2,794           | 37,240                 | Do.                      |
| Ben Cohen: Penn Manor (4 sections).....                  | 135,000   | 1,326           | 44,514                 | New Jersey.              |
| Morty Wolosoff: Alley Pond Park (2 sections)...          | 475,577   | 928             | 58,500                 | New York.                |
| James J. Keelty: Rogers-Forge Apartments (2 sections)... | 834,596   | 2,082           | 40,973                 | Maryland.                |
| Thomas J. O'Brien: Meadowbrook Corp.....                 | 36,604    | 2,675           | 46,129                 | Indiana.                 |
| Leo Lippman:   |           |                 |                        |                          |
| Webster Homes.....                                       |           | 136             | 4,069                  | Do.                      |
| Norden Court.....  |           | 296             | 8,916                  | Do.                      |
| Admiral Homes.....                                       |           | 240             | 7,229                  | Do.                      |
| Commodore Homes.....                                     | 686,584   | 480             | 14,458                 | Do.                      |
| Kitley Corp.....   |           | 288             | 8,675                  | Do.                      |
| Barrington Heights.....                                  |           | 1,240           | 18,600                 | Do.                      |
| Minear Homes.....  |           | 112             | 2,486                  | Do.                      |
| Shoreland Homes.....                                     |           | 521             | 4,689                  | Do.                      |
| Total.....   | 686,580   | 3,313           | 69,122                 |                          |

*Rental increases on windfall projects (public hearings only)*—Continued

| Witnesses and projects                          | Windfall   | Number of rooms | Annual rental increase | Insuring district office   |
|---|------------|-----------------|------------------------|----------------------------|
| Herbert Glassman: Glassmanor (3 sections).....  | \$251, 102 | 3, 485          | \$15, 308              | Washington, D. C.<br>Do.   |
| William S. Banks: University City.....          | 195, 574   | 1, 516          | 22, 677                |                            |
| Albert Stark:<br>Drumcastle Apartments.....     | 202, 189   | 1, 202          | 15, 434                |                            |
| Seton Helghts.....                              | 2, 716     | 900             | 11, 988                |                            |
| Total.....                                      | 204, 805   | 2, 102          | 27, 422                |                            |
| Alexander Muss:<br>Sunset Gardens.....          |            | 323             | 4, 380                 | New Jersey.<br>Do.         |
| Boulevard Gardens.....                          | 138, 142   | 854             | 43, 554                |                            |
| Total.....                                      | 138, 142   | 1, 177          | 47, 934                |                            |
| Israel Orlian: Floral Park, Inc.....            | 148, 089   | 1, 092          | 20, 049                | Do.                        |
| Benjamin Nelsloss: Brookside Gardens.....       | 525, 616   | 1, 663          | 62, 462                | Do.                        |
| Charles Punia:<br>Hutton-Lafayette Gardens..... |            | 909             | 11, 344                | Do.                        |
| Clinton Towers.....                             |            | 125             | 4, 380                 | Do.                        |
| Total.....                                      |            | 1, 034          | 15, 724                |                            |
| Herbert Du Bois:<br>Clover Hills Gardens.....   | 280, 000   | 794             | 17, 152                | Do.                        |
| Parkway Apartments.....                         | 250, 000   | 1, 591          | 43, 339                | Do.                        |
| Total.....                                      | 530, 000   | 2, 385          | 60, 491                |                            |
| Saul Silberman: Uplands Apartments.....         | 552, 000   | 2, 007          | 14, 450                | Maryland.<br>Pennsylvania. |
| Dr. Daniel Gevinson: Flamingo Apartments.....   |            | 1, 022          | 34, 700                |                            |

The CHAIRMAN. Thank you very much, Mr. Lyons.

Our next witness will be Mr. Carl Budwesky of the Shirley-Duke Apartments.

Will you come up, Mr. Budwesky?

Will you be sworn, Mr. Budwesky? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF CARL BUDWESKY, SHIRLEY-DUKE APARTMENTS,  
ALEXANDRIA, VA.—Resumed**

Mr. BUDWESKY. I do.

The CHAIRMAN. Thank you, sir. Be seated, please.

Mr. Budwesky asked to be heard this morning because we asked him some time ago to furnish us with the canceled checks amounting to something like \$112,000 that Shirley-Duke paid to a man by the name of Bornstein; isn't that correct? (See p. 184, pt. 1.)

Mr. BUDWESKY. The amount of money, of \$112,000 was paid to me as trustee.

The CHAIRMAN. As trustee; yes.

Mr. BUDWESKY. And I stated that the money belonged to Mr. William Bornstein, and associate, Mr. Adolph Klein.

The CHAIRMAN. Klein?

Mr. BUDWESKY. K-l-e-i-n, and as I was instructed subsequently by Mr. Hutman and Mr. Loftus, I disbursed \$112,000 to these gentlemen. I was requested to furnish the checks showing that disbursement.

I have the originals of those checks here, and I have also photostat copies, which I would like to leave with the committee.

The CHAIRMAN. Without objection, they will be made a part of the record.

May I see them just a moment?

You dropped some on the floor, I believe. These are copies of the checks?

Mr. BUDWESKY. They are the original checks. Disbursement was made on three different occasions in different amounts. About \$80,000 in January of 1951.

The CHAIRMAN. What was the purpose of paying Mr. Bornstein this money?

Mr. BUDWESKY. He was a stockholder in sections 4 and 5 and that was his part of the distribution of the unexpended portion of the mortgage money.

The CHAIRMAN. Of the unexpended portion of the mortgage money?

Mr. BUDWESKY. That is right.

The CHAIRMAN. He received some \$112,000?

Mr. BUDWESKY. He and his son and their partners.

The CHAIRMAN. What did he pay originally for the capital stock from which these earnings came?

Mr. BUDWESKY. Just a moment.

The CHAIRMAN. Maybe you don't recall, but it was—

Mr. BUDWESKY. I can tell you exactly. They had 30 shares in each corporation for which they paid \$5 a share.

The CHAIRMAN. So he paid less than \$150 for it?

Mr. BUDWESKY. Then they paid \$150 for it on 30 shares in 4 and \$150 for the 30 shares in 5.

The CHAIRMAN. So he paid \$300?

Mr. BUDWESKY. That is right.

The CHAIRMAN. And got back \$112,500?

Mr. BUDWESKY. That is correct, sir.

The CHAIRMAN. He did well, didn't he?

Mr. BUDWESKY. Very well.

The CHAIRMAN. Now, have you any questions, Mr. Sells?

Mr. SELLS. Yes. Mr. Budwesky, I don't think the press got your first name.

Mr. BUDWESKY. The first name is Carl, C-a-r-l.

Mr. SELLS. And what is your present capacity with Shirley-Duke?

Mr. BUDWESKY. I am a small stockholders in all six of the Shirley-Duke Corps. I have a 3-percent interest.

The CHAIRMAN. Any questions, Mr. Dinkins?

Mr. DINKINS. No, sir.

The CHAIRMAN. We will give you back the original checks and make the photostats part of the record.

Just 1 minute. Mr. William Bornstein had 30 shares that cost him \$5 for each share.

Mr. BUDWESKY. Well, he had a certain portion of the 30 shares. His son had a certain portion of the 30 shares, and Mr. Klein had a certain portion. I forget the exact percentage of the 30.

The CHAIRMAN. That was in sections 4 and 5 of Shirley-Duke?

Mr. BUDWESKY. Four and five; that is right.

The CHAIRMAN. And that was the same firm that I just mentioned in the record that got an increase in rent.

Mr. BUDWESKY. That is right.

The CHAIRMAN. Somebody tell me how much Shirley-Duke was permitted to increase rents after making this tremendous amount.

Mr. BUDWESKY. As I recall, you stated their annual increase was \$89,000.

The CHAIRMAN. \$89,000?

Mr. BUDWESKY. That is right.

The CHAIRMAN. That is nearly \$90,000 for 30 years, and that would be a \$2,700,000 increase that they were permitted.

Mr. BUDWESKY. I think it averaged about \$2.50 an apartment per month allowed in rents.

The CHAIRMAN. But it would be \$90,000 a year for 30 years, which would be \$2,700,000.

Mr. BUDWESKY. That is right.

The CHAIRMAN. That the tenants over there were paying, as an increase, after having 1 man here make, on a \$300 investment, \$112,500.

Mr. BUDWESKY. Yes. But he has to pay it back, you know, to the mortgagee. Corporations have to pay that money back to the mortgagee.

The CHAIRMAN. Yes; but it is a \$1,000 corporation, that is all. I would have no quarrel with Mr. Bornstein or anybody else if they were endorsing the mortgage, but they are not endorsing the mortgage. They took \$112,500, put it in their pocket, and the Government is sitting there with a guaranteed mortgage, with a corporation of 30 shares, at what, \$5——

Mr. BUDWESKY. The Government insured the mortgage; the individuals did not.

The CHAIRMAN. I know.

Mr. BUDWESKY. But, incidentally, the Government is getting about \$1,250,000 for insuring the mortgage.

The CHAIRMAN. That may well be true. That is true of every insured mortgage.

Mr. BUDWESKY. They are in the insurance business; that is right.

The CHAIRMAN. That is true of every insured mortgage.

Mr. BUDWESKY. That is right.

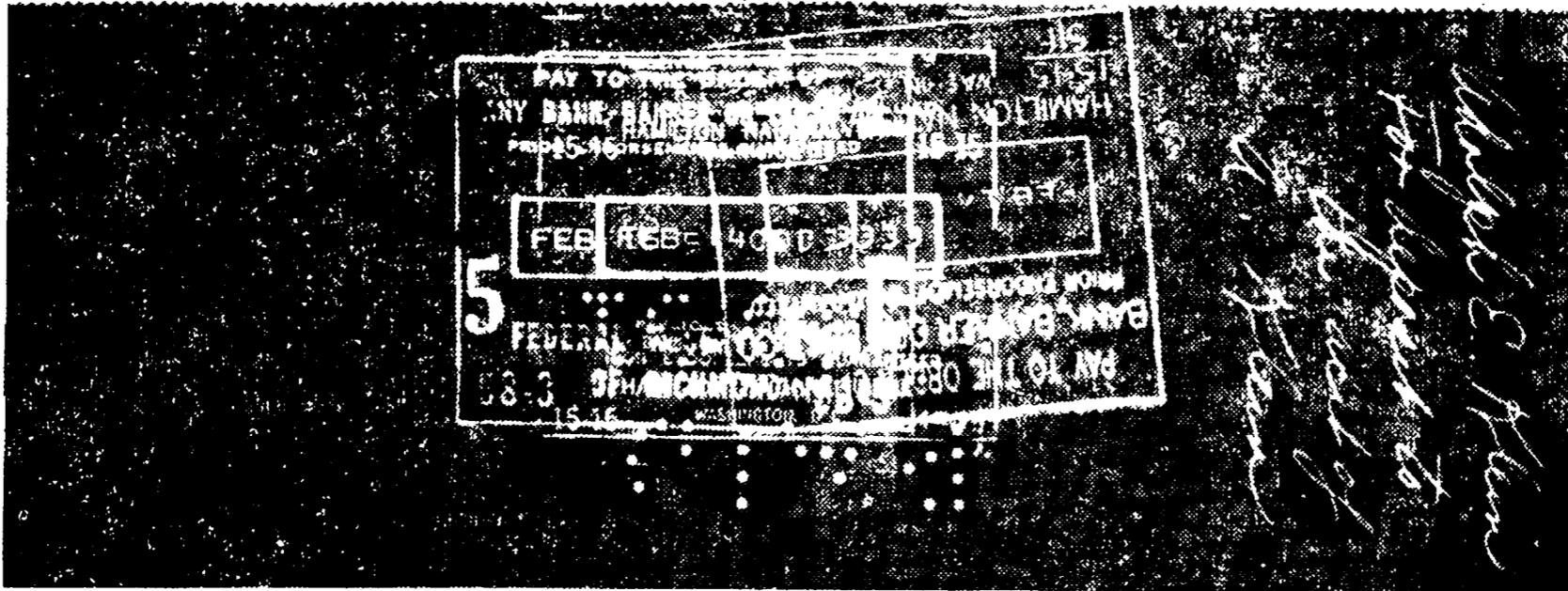
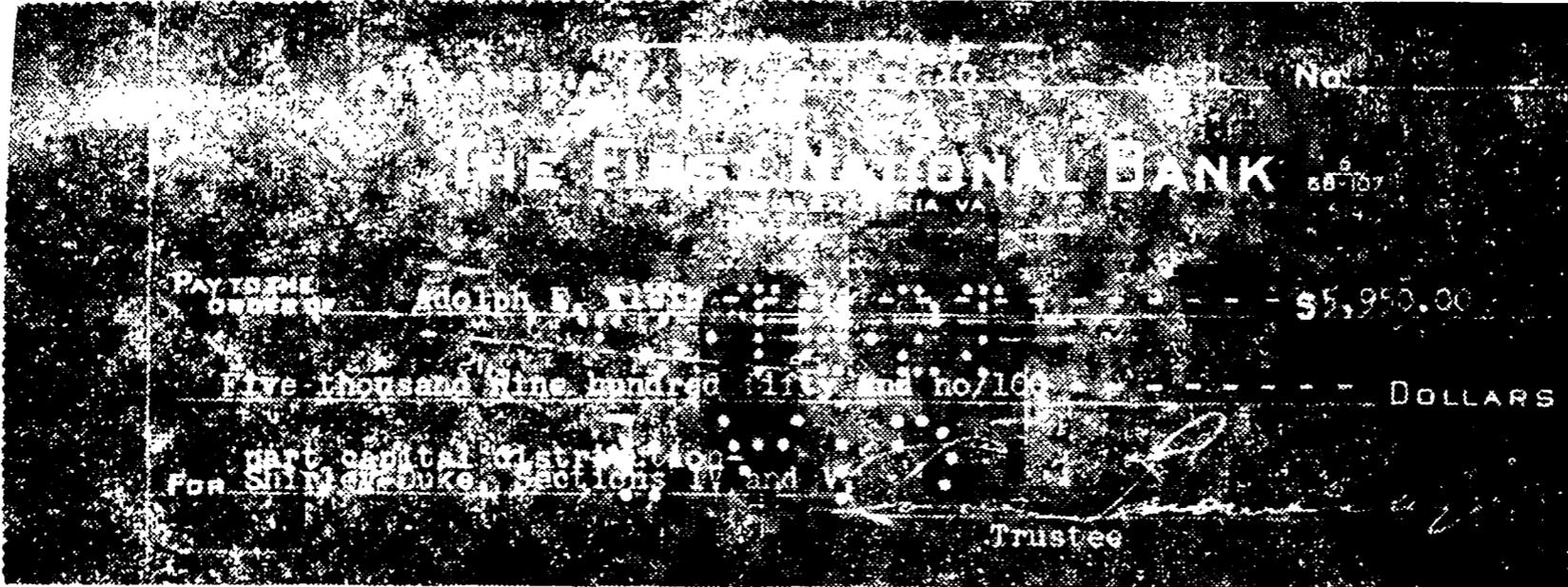
The CHAIRMAN. Any other questions?

Mr. SELLS. No.

The CHAIRMAN. Thank you very much, Mr. Budwesky.

Mr. BUDWESKY. You are very welcome, sir.

The CHAIRMAN. We will make these checks part of the record.  
(The checks referred to follow:)



FHA INVESTIGATION

3691

3692

FHA INVESTIGATION

ALEXANDRIA, VA February 10 19 51 No.

**THE FIRST NATIONAL BANK**  
OF ALEXANDRIA, VA

PAY TO THE ORDER OF Alfred Bernstein \$ 5,950.00

Five thousand nine hundred fifty and no/100 DOLLARS

part capital distribution  
For Shirley-Duke, Sections IV and V

Trustee

Alfred Bernstein  
1111 1/2 ...  
Alexandria, Va.

ALEXANDRIA, VA *May 10* 19*43* No. *100*

**THE FIRST NATIONAL BANK**  
OF ALEXANDRIA, VA

PAY TO THE ORDER OF *Alfred Borinstein* \$*3,140.87*

*Thirty one hundred forty and 87/100* DOLLARS

FOR *Be distributed to* *Love Borinstein*  
*Alfred Borinstein (100)*

ALFRED BORINSTEIN  
FOR DEPOSIT TO THE ACCOUNT OF  
ALFRED AND A. B. BORINSTEIN

THE FIRST NATIONAL BANK  
ALEXANDRIA, VA

MAY 10 1943

PAID TO THE ORDER OF  
ALFRED BORINSTEIN

FHA INVESTIGATION

3693

3694

FHA INVESTIGATION

ALEXANDRIA, VA *May 15* 19 *53* No. \_\_\_\_\_

**THE FIRST NATIONAL BANK**  
OF ALEXANDRIA, VA

PAY TO THE ORDER OF *Joseph Klein* \$ *3,140.<sup>87</sup>*

*Thirty one hundred forty and 87/100* DOLLARS

FOR *Balance distribution*  
*John de la Harpe* *Gene D. ...*

RECEIVED PAYMENT FROM THE  
WASHINGTON D.C. CLEARING HOUSE  
ON MAY 17 1953  
**THE FIRST NATIONAL BANK**  
OF ALEXANDRIA, VA

PAID TO THE ORDER OF  
JOSEPH KLEIN  
A. KLEIN

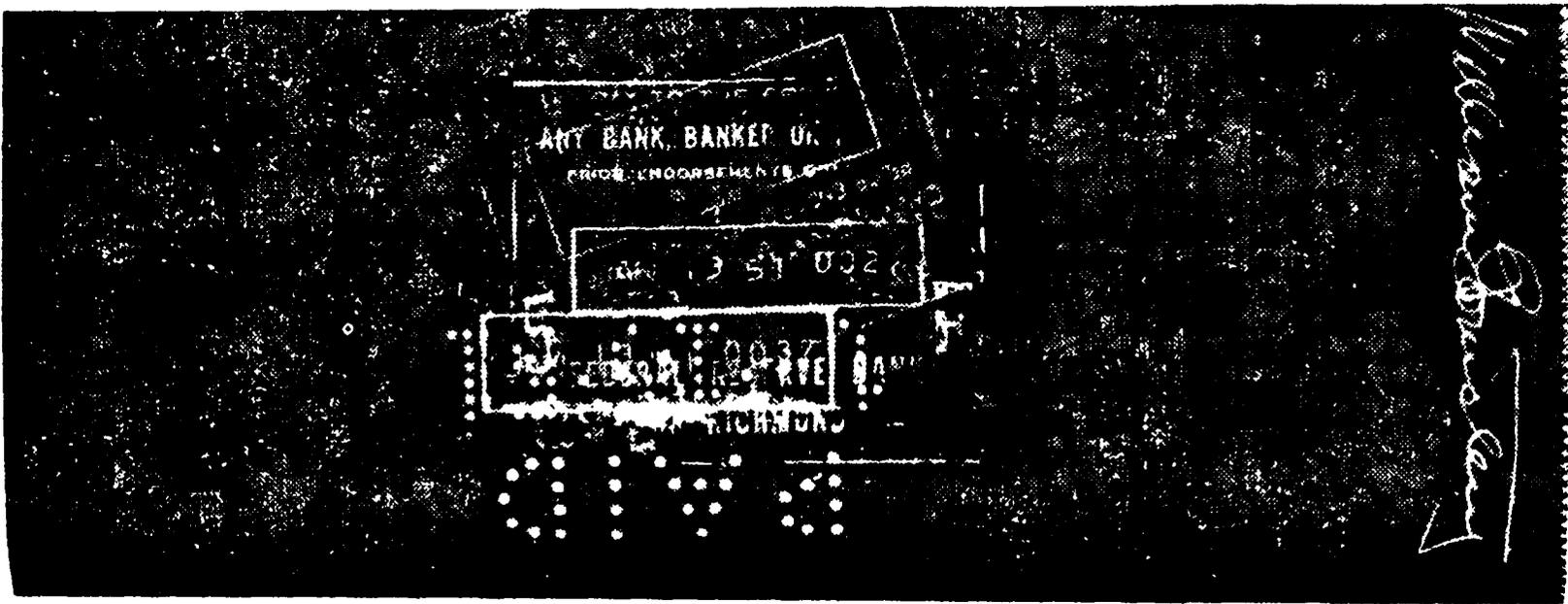
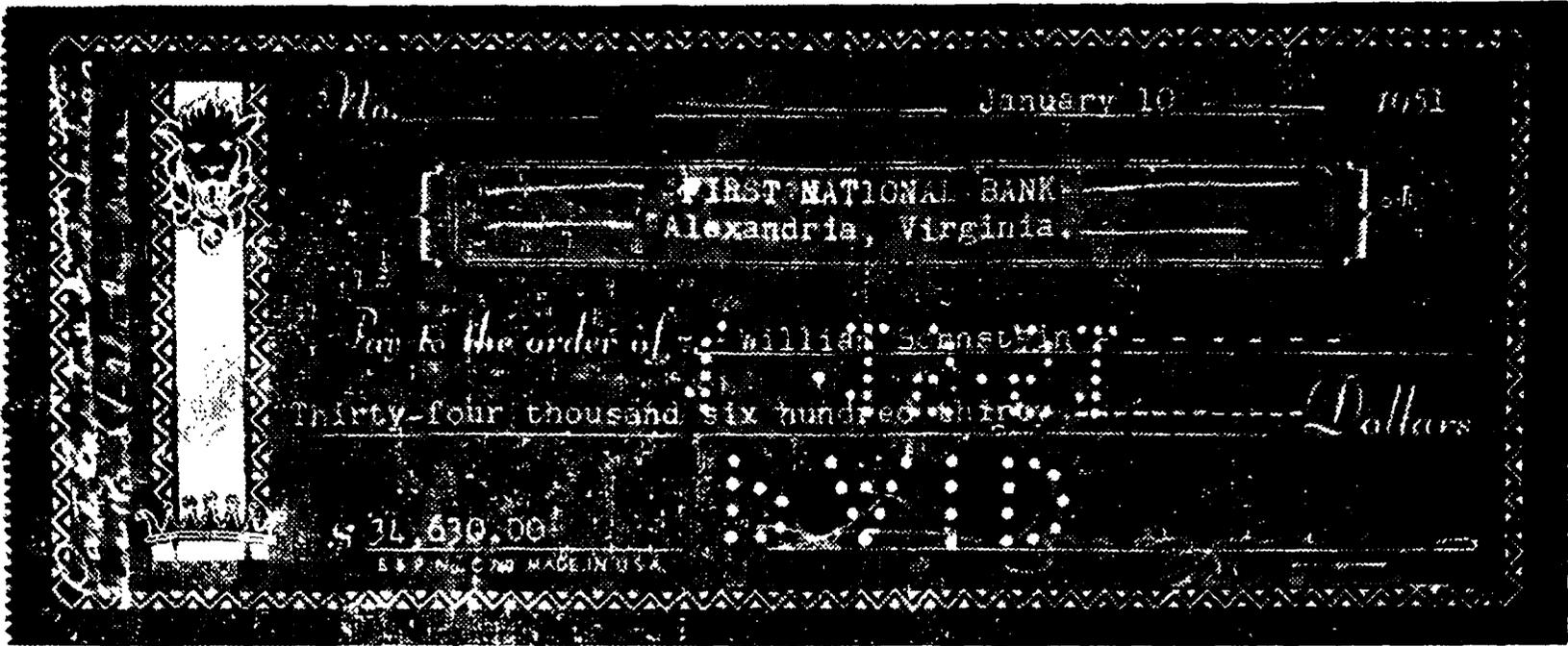
FOR DEPOSIT TO THE ACCOUNT OF  
JOSEPH KLEIN

ALEXANDRIA VA *Maryland* 1953 No. 68-107  
**THE FIRST NATIONAL BANK**  
 PAY TO THE ORDER OF *Wm. Eornstein* \$5032<sup>04</sup>  
*Five thousand thirty two and 04/100* DOLLARS  
 FOR *Bank Contribution* *John B. Eornstein*

**FOR DEPOSIT ONLY**  
 TO THE ORDER OF  
**WM. EORNSTEIN**

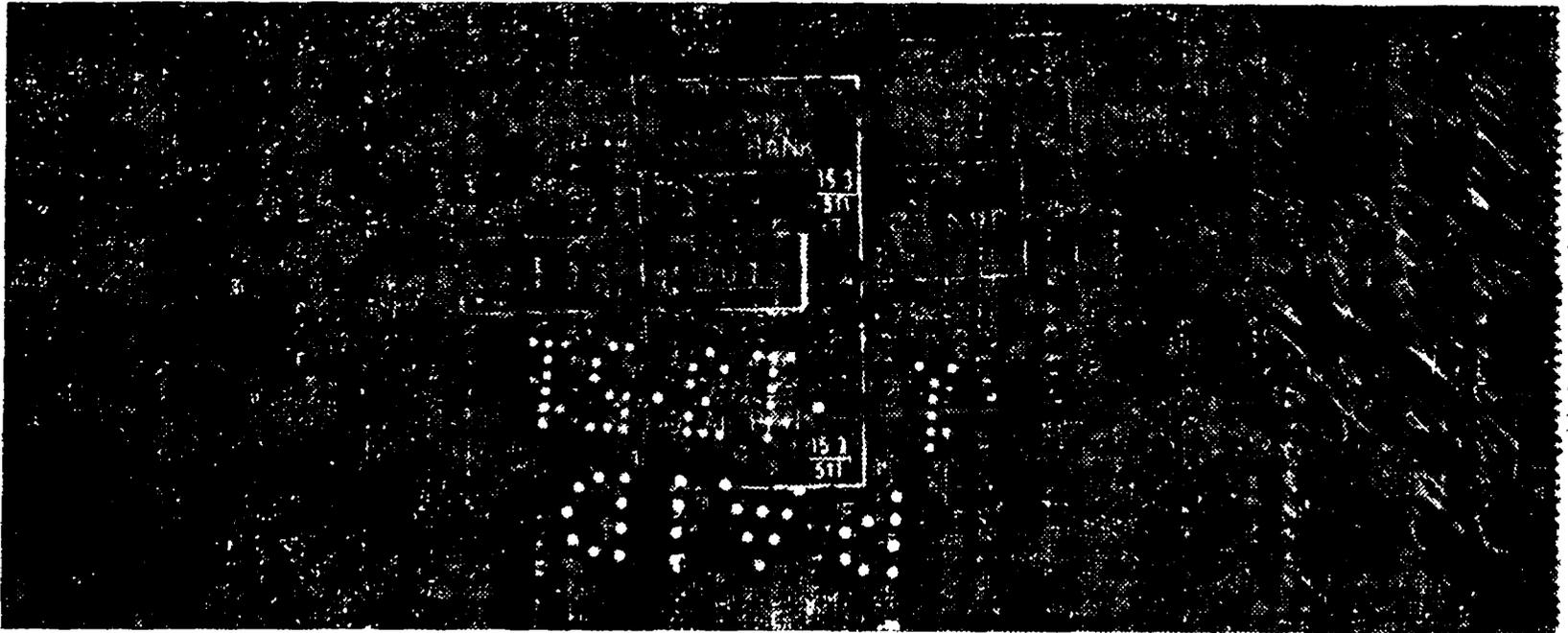
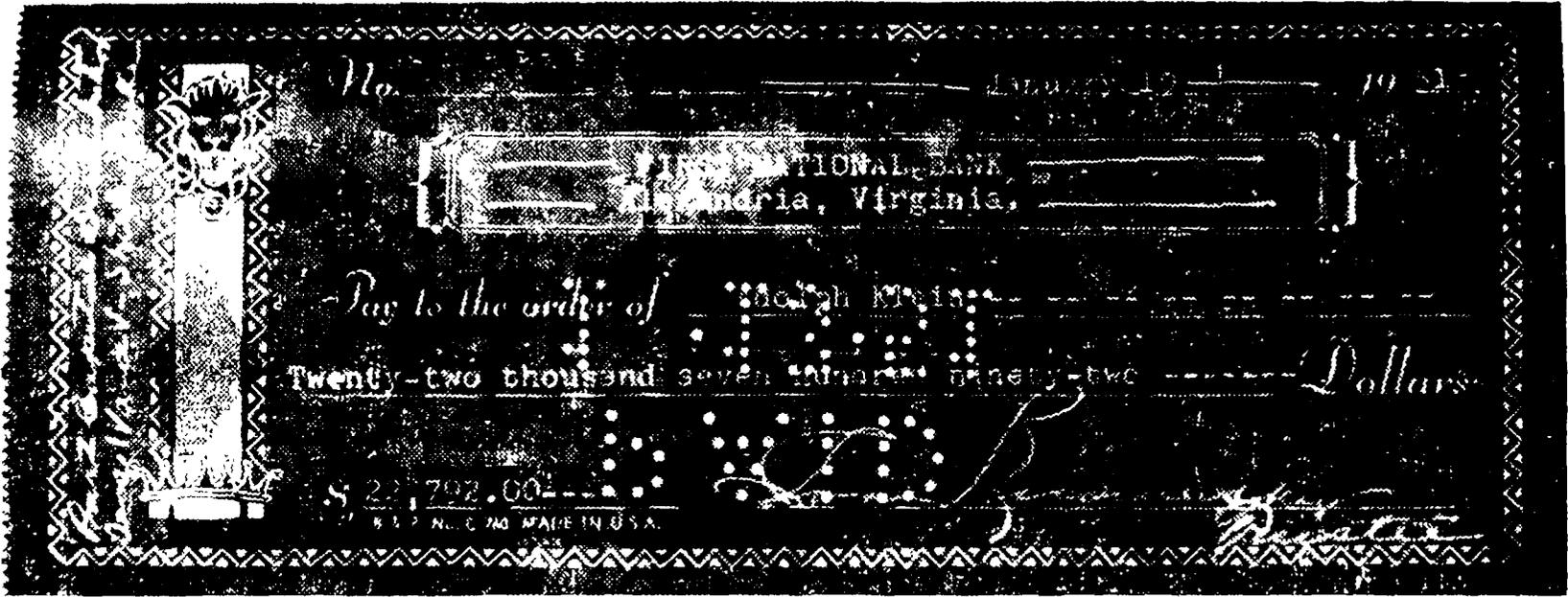
FHA INVESTIGATION

3695



3696

FHA INVESTIGATION



FHA INVESTIGATION

3697

3698

FHA INVESTIGATION

ALEXANDRIA, VA. February 10 1951 No.

**THE FIRST NATIONAL BANK**  
OF ALEXANDRIA, VA.

PAY TO THE ORDER OF William Bornstein \$ 9,100.00

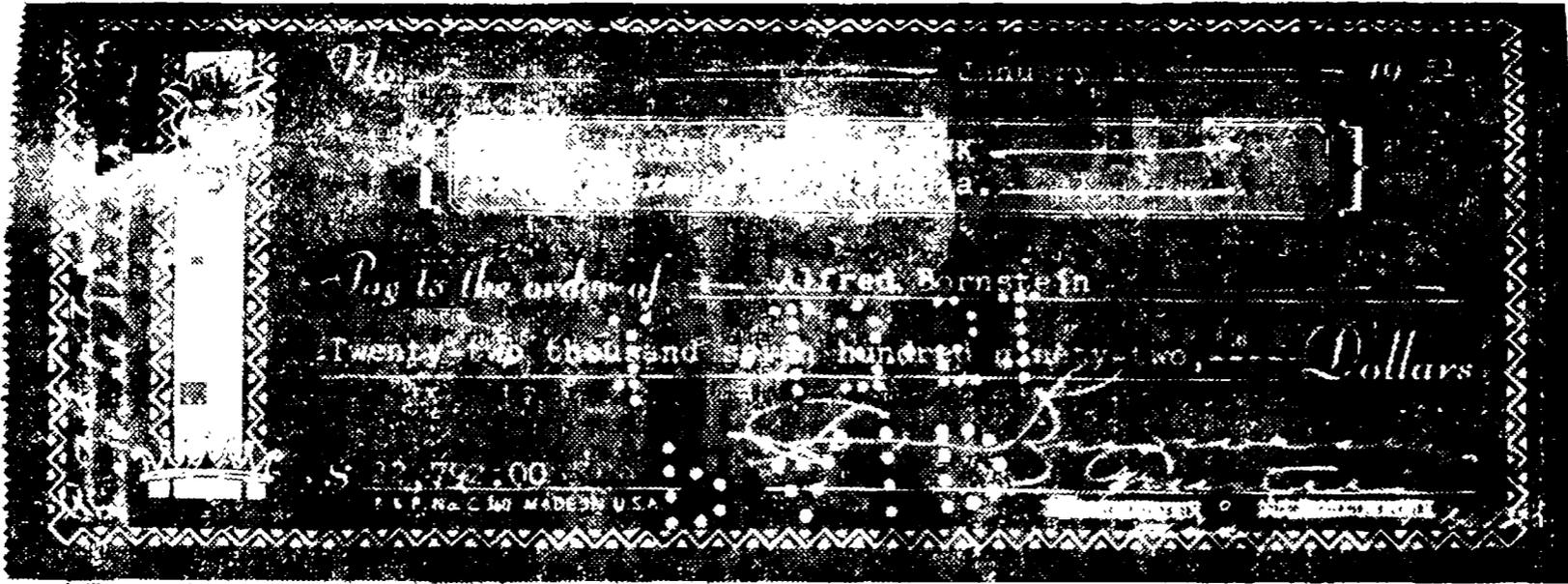
Nine thousand one hundred and no/100 DOLLARS

part capital distribution -  
For Shirley Duke, Sections IV and V

*[Signature]*  
Trustee

PAY TO THE ORDER OF  
PAY TO THE ORDER OF  
ANI PROB. BANK OF TRUST CO.  
FROM ENDOSEMENT - GUARANTEED  
FEB 12 51 3374  
FEB 20 51 10329  
FEB 20 51 10329  
FEDERAL RESERVE BANK  
OF RICHMOND 68-3

*William Bornstein*  
*Shirley Duke*



The CHAIRMAN. Our next witnesses, we will call two of them at the same time, are Mr. James E. Coombs, of Morgantown, W. Va., and Mr. Robert L. Shuman, of Morgantown, W. Va.

Will you gentlemen please come forward? Will you gentlemen be sworn, please? You solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF JAMES E. COOMBS, MORGANTOWN, W. VA., ACCOMPANIED BY ROBERT L. SHUMAN, COUNSEL**

Mr. COOMBS. I do.

Mr. SHUMAN. I do.

The CHAIRMAN. Thank you, sir. Will you please be seated?

If you will give the reporter your full names and addresses for the record, we will appreciate it very much.

Mr. SHUMAN. Robert L. Shuman, Morgantown, Monongalia County, W. Va.

Mr. COOMBS. James E. Coombs, Morgantown, W. Va.

The CHAIRMAN. You may proceed, Mr. Dinkins.

Mr. DINKINS. Mr. Coombs, you are the president and general manager of Baker & Coombs, Inc.?

Mr. COOMBS. That is right.

Mr. DINKINS. Your company engages in the construction business?

Mr. COOMBS. Yes, sir.

Mr. DINKINS. And Mr. Shuman is your attorney?

Mr. COOMBS. That is correct.

Mr. DINKINS. Mr. Shuman, I will address my questions to Mr. Coombs, but whenever you have anything to add to his answer, or if you have any different ideas about his answers, will you feel free to come in and add to his testimony?

Mr. SHUMAN. Yes, sir.

Mr. DINKINS. Mr. Coombs, did there come a time in January of 1950 when you and Mr. Shuman had occasion to come to Washington in connection with the Government military housing project at Patuxent, Md.?

Mr. COOMBS. That is correct.

Mr. DINKINS. Do you recall at that time whether you had some conversations with Mr. Marshall Diggs, attorney, whose office is at 1025 Connecticut Avenue, in Washington?

Mr. COOMBS. Yes; I do.

Mr. DINKINS. Did you also have some conversations with a Mr. Richard McCormick?

Mr. COOMBS. Yes, sir.

Mr. DINKINS. And a Mr. Ed Bennett?

Mr. COOMBS. That is correct.

Mr. DINKINS. Mr. Coombs, I show you what purports to be a carbon copy of a letter which you wrote to Mr. Diggs and to Mr. Tarnay on October 11, 1950, and I call your particular attention to the last paragraph on page 1 and the first paragraph on page 2, which I would like you to glance at to refresh your recollection.

Mr. COOMBS. Now you are asking about the last paragraph on the first page and the second paragraph—or the first paragraph on the second page and the last paragraph on the first page?

Mr. DINKINS. Well, I wanted to refresh your recollection.

Mr. COOMBS. Yes.

Mr. DINKINS. And I have particular reference to those two paragraphs.

Mr. COOMBS. Yes.

The CHAIRMAN. May we have the letter back, please?

Mr. DINKINS. Now, Mr. Coombs, this is a copy of the letter which you wrote?

Mr. COOMBS. Yes.

Mr. DINKINS. And the facts as stated in this letter are correct?

Mr. COOMBS. Yes, I would say so, sir.

Mr. DINKINS. In this letter, Mr. Coombs, you stated, with reference to your negotiations here in Washington, and I quote:

The entire negotiations were handled or had with one Mr. McCormick, who represented himself as your agent and public relations man of your law firm, which representation was confirmed by Mr. Marshall Diggs, who stated that we could fairly rely upon his statements, assurances, facts, and representations, which needless to say we did, inasmuch as Marshall Diggs was at the time the agreement was signed burdened with considerable matters that limited his available time as due to the discussion of this matter with us. Our corporation was requested at approximately 10 p. m. one evening to send representatives of this corporation to Washington, D. C., to confer with your law firm in relation to a military housing project at Patuxent, and were notified that the situation was urgent, that our representatives should proceed immediately, which they did, arriving in Washington early the following morning. Upon arriving in Washington, a general and further discussion was had with your agent and public-relations man in the Mayflower Hotel. Said discussions pertaining entirely to the military housing development to be constructed at Patuxent. Our corporation prior to this time had no knowledge of any such project and certainly could not be accused of soliciting aid and obtaining the construction of said project to this time.

You state in this letter that you got this urgent call at 10 o'clock one evening in West Virginia.

Do you recall what time you arrived in Washington the next morning?

Mr. COOMBS. I would say it was probably around between 3 and 4 o'clock in the morning.

Mr. DINKINS. Just when and where did you first meet with Mr. McCormick and Mr. Ed Bennett after you arrived in Washington?

Mr. COOMBS. I don't believe we met them that night; did we? I think it was the next morning; wasn't it?

Mr. SHUMAN. It seems to me it was about, approximately 3 or 4 hours later.

Mr. COOMBS. I would say that we probably met them—I don't remember, Mr. Bennett. I remember Mr. McCormick. We probably met him around 9 o'clock the following morning, or 8 o'clock the following morning.

Mr. DINKINS. Do you recall whether that was the Mayflower Hotel?

Mr. COOMBS. Yes, sir; I believe it was.

Mr. DINKINS. Well, now, will you pick your story up from that point and tell us what happened at the Mayflower Hotel?

Mr. COOMBS. Well, first, I want to explain, it has been so far back that—

The CHAIRMAN. What was the year? Let's establish the year.

Mr. COOMBS. 1950, in January.

The CHAIRMAN. In January 1950?

Mr. COOMBS. Yes, sir.

The CHAIRMAN. You came to Washington and arrived at 4 o'clock in the morning?

Mr. COOMBS. That is right.

The CHAIRMAN. And went to the Mayflower Hotel and met Mr. McCormick?

Mr. COOMBS. Well, we arrived and then we went to another hotel and spent the night and came back to the Mayflower the next morning.

The CHAIRMAN. Is that Mr. McCormick sitting in the rear of this room? Will you turn around? Is that the gentleman there?

Mr. COOMBS. I wouldn't recognize him, to tell you the truth. I don't know, sir.

The CHAIRMAN. You do not know. But you remember you did see him, Mr. McCormick?

Mr. COOMBS. Yes, sir, I did. But I saw him just that one time.

The CHAIRMAN. That was the only time you saw him?

Mr. COOMBS. Yes.

The CHAIRMAN. That was in January 1950.

Mr. SHUMAN. I recognized him when I came into the room.

The CHAIRMAN. Mr. Shuman, is that the Mr. McCormick sitting in the rear of the room?

Mr. SHUMAN. I would say that is the Mr. McCormick that I met at the Mayflower Hotel. I recognized him when I came in. But I did not remember his first name.

The CHAIRMAN. I see. Proceed then to tell us what happened.

Mr. COOMBS. I was going to say that first of all some of these things might be out of order when they happened.

The CHAIRMAN. As to continuity?

Mr. COOMBS. That is right; yes, sir.

We met Mr. McCormick and a Mr. Waugh. He was from Buchanan, W. Va. And we were also accompanied on our trip by a Mr. VanGilder.

Now, I believe they were partners in a construction company, a small construction company near Buchanan. And evidently Mr. Waugh received information of these military housing installations and evidently he felt it was too much for his organization. I think probably the initial call was made by him to us late that evening. They informed us the next morning—now as to which one informed us, whether it was Mr. Waugh or Mr. McCormick exactly I don't know, but I would say they were both present—that they felt that they could obtain for us the contract for constructing a housing project at the naval station at Patuxent, Md., and told us that we should—that Mr. Marshall Diggs of Washington—

The CHAIRMAN. He is an attorney.

Mr. COOMBS. Yes, sir—could handle—

The CHAIRMAN. Were you here when he testified before this committee in October?

Mr. COOMBS. No, I was not, sir.

The CHAIRMAN. Yes.

Mr. COOMBS. Told us that Mr. Diggs should represent us in Washington, and he felt that Mr. Diggs could obtain for us—

The CHAIRMAN. McCormick told you that?

Mr. COOMBS. It was either Mr. McCormick or Mr. Waugh or both of them.

The CHAIRMAN. Both told you that you ought to be represented by Mr. Diggs, this lawyer in Washington?

Mr. COOMBS. That is correct, sir.

The CHAIRMAN. That he could secure for you a contract to build this project at Patuxent.

Mr. COOMBS. That is correct.

Shortly after that, we went over to Mr. Diggs' office.

Mr. SHUMAN. May I interrupt there just a moment?

The CHAIRMAN. You may, if you have something.

Mr. SHUMAN. I don't think there was any firm promise.

The CHAIRMAN. Yes.

Well, they suggested they might be able to do it, is that it?

Mr. SHUMAN. Yes, that he had the know-how as far as having supplied certain information in relation to the preparation of some of the bills.

The CHAIRMAN. I see, yes.

Mr. SHUMAN. Wasn't that your understanding?

Mr. COOMBS. Yes.

The CHAIRMAN. That he could possibly do it. He was in a position to do it, is that it?

Mr. SHUMAN. He would be of great advantage.

The CHAIRMAN. He left the impression with you that he had influence with certain people, is that correct?

Mr. SHUMAN. I think so.

The CHAIRMAN. Yes, sir. You may proceed.

Mr. COOMBS. And we met Mr. Diggs in his office. And I believe that Mr. — I know Mr. McCormick was present, or I believe he was, Mr. Waugh, Mr. Van Gilder, and I believe Mr. Bennett was present then also.

The CHAIRMAN. Who was Mr. Bennett?

Mr. COOMBS. Mr. Ed Bennett from somewhere in West Virginia, I am not exactly sure where, sir.

Mr. DINKINS. Incidentally, Mr. Coombs, was Mr. Bennett ever referred to as Senator Bennett?

Mr. COOMBS. Yes, sir. I believe he was a past West Virginia State senator.

The CHAIRMAN. Living here in Washington at the time?

Mr. COOMBS. I don't know that, sir.

Evidently, he was a friend of Mr. Waugh's.

Mr. DINKINS. That impression you got is that he was either a senator or former senator of the State of West Virginia?

Mr. COOMBS. Yes. They called him senator, though I believe that it was my impression at the time—it might have been at a later time—that he was a State senator and not a United States Senator.

Mr. DINKINS. Do you recall any references to Mr. McCormick as Representative McCormick?

Mr. SHUMAN. Yes, I do. He was referred to as Representative McCormick and I was told that.

Now, my memory is similar to Mr. Coombs on that. I don't know whether he was held out to us to be a Representative at that time or a former Representative. I think it was a former Representative because he was—I had received the impression at that time he was attorney in Mr. Digg's office.

The CHAIRMAN. In other words, they called you at 10 o'clock in the night. You arrived here at 4 o'clock in the morning. You went to a hotel. At 9 o'clock you met these gentlemen at the Mayflower, at which time Mr. Bennett was there whom they called Senator, and Mr. McCormick was there who they called Congressman or Representative, is that correct?

Mr. COOMBS. Not Congressman.

The CHAIRMAN. They told you a man by the name of Diggs, an attorney, could secure for you a contract to build this project at Patuxent; is that correct?

Mr. COOMBS. That is essentially correct, yes.

The CHAIRMAN. Then you proceed to Mr. Diggs' office?

Mr. COOMBS. That is correct.

The CHAIRMAN. What did Mr. Diggs tell you, that he could or could not?

Mr. COOMBS. First of all he told us that he was handling many similar cases for many contractors over the country and that he had picked out for us the Patuxent Naval Base job.

The CHAIRMAN. He was going to do you a favor?

Mr. COOMBS. That is right, sir.

The CHAIRMAN. You never met him before?

Mr. COOMBS. No, sir.

The CHAIRMAN. It was nice of him, wasn't it?

Mr. COOMBS. And told us the terms and conditions under which he would work.

It seems that he wanted a \$5,000 retainer.

Now, his recollection and our recollection of how that was to be used or the application of that was different, in that we felt that it was a sum of money that he was to draw against to cover his expenses during the setting up of the corporation and the preparation of the submissions.

In addition to that, there would be a corporation formed which would manage the houses after they were constructed. And his partner, or he would become a shareholder——

The CHAIRMAN. In that corporation?

Mr. COOMBS. With that corporation; that is correct.

The CHAIRMAN. Did he tell you how much capital would be put in that corporation? Three hundred dollars, five hundred dollars? One thousand dollars is generally the pattern. I just wondered if it was true in this instance.

Mr. COOMBS. I don't believe that was discussed at all.

Mr. SHUMAN. I think that corporation had to conform with any of the requirements set up in the housing bills.

The CHAIRMAN. I see.

Mr. SHUMAN. For the management of the housing projects.

The CHAIRMAN. In other words, he said for \$5,000 that he could get you this contract.

Did you pay him the \$5,000?

Mr. COOMBS. Well, now, he was getting the contract. We were to build it in conjunction with Waugh and Van Gilder. Then himself and our company were to set up a management corporation.

The CHAIRMAN. I see.

Mr. COOMBS. To run it.

The CHAIRMAN. But he—did you pay him \$5,000?

Mr. COOMBS. Well, we did not right then. We went back to the hotel and we sat down and again I believe Mr. Waugh and Mr. McCormick, I believe, were present, I am not sure of that, and Mr. Shuman and myself sat down and discussed it more.

We called Morgantown and had a check made up for \$5,000 and put in the post office that night.

The CHAIRMAN. To Mr. Diggs?

Mr. COOMBS. To Mr. Diggs.

The CHAIRMAN. Was the check made to Diggs personally?

Mr. COOMBS. Yes, sir. We have the copy of the check.

The CHAIRMAN. Do you have the check, please?

Mr. COOMBS. Yes.

The CHAIRMAN. Mr. McCormick's name did not appear on it?

Mr. COOMBS. No, sir; I do not believe so.

Mr. SHUMAN. No.

The CHAIRMAN. If you have the check, we would appreciate having it.

Mr. SHUMAN. Senator, you must realize that this conversation extended from about 8 or 9 o'clock in the morning through to 5 or 5:30 that afternoon.

The CHAIRMAN. Yes; I appreciate that.

Mr. DINKINS. Mr. Shuman, during that conversation, were there any representations made to you, either by Mr. Diggs or by Mr. McCormick, that Mr. Diggs had an important part in writing the Wherry Act under which this project was to be built, or that he was virtually the father of the Wherry Act?

Mr. SHUMAN. I wouldn't say that I got the impression that he was the father of it, but I was given the impression that he had a better understanding of the act as the result of some participation than the general attorney in Washington, and that he had a certain amount of know-how in relation to the obtaining of the contracts. But I want to again repeat that I don't know of any time that we were absolutely promised any contract.

Mr. DINKINS. Well, did you understand that Mr. Diggs actively participated in the writing of the Wherry Act in any way?

Mr. SHUMAN. Well, Mr. Coombs made that statement about 6 weeks ago, and I don't know whether—at that time refreshed my memory or whether I myself remembered that.

Mr. COOMBS. I definitely do remember that point.

The CHAIRMAN. I don't want to interrupt here, but it isn't quite clear to me. You say you were called at 10 o'clock at night?

Mr. SHUMAN. Yes, sir.

The CHAIRMAN. And you came in and arrived at 4 o'clock in the morning?

Mr. SHUMAN. Yes, sir.

The CHAIRMAN. Went to some hotel. Then met with these gentlemen at 9 o'clock at the Mayflower.

Mr. COOMBS. That is correct.

The CHAIRMAN. What was the rush about it?

I mean had you ever met Mr. Diggs or Mr. McCormick or Mr. Waugh before?

Mr. COOMBS. No, sir.

The CHAIRMAN. Were they all total strangers?

Mr. SHUMAN. I knew Mr. Waugh.

The CHAIRMAN. Oh.

Mr. SHUMAN. Only through my acquaintance with him in college.

The CHAIRMAN. I see.

But you did not know Mr. Diggs or Mr. McCormick.

Mr. SHUMAN. No.

Mr. COOMBS. I knew Mr. Van Gilder, who was the one that first brought the information to us.

The CHAIRMAN. What was so rushed about this whole business that you had to get in here at 4 o'clock in the morning?

Mr. COOMBS. We could never understand that.

Mr. SHUMAN. We sure couldn't.

Mr. COOMBS. And even after we got here we couldn't find out why it was so rushed.

The CHAIRMAN. What was the date you arrived here? January—

Mr. COOMBS. I am guessing from that check that we arrived here the morning of the 20th of January.

The CHAIRMAN. And then you telephoned Morgantown and they mailed this check, and this check—I will read this into the record because it is the original check. We will not ask you for it at the moment. The check to Marshall R. Diggs for \$5,000, dated January 20, 1950, check No. 33075, drawn on the account of the Baker & Coombs, Inc., general contractors, \$5,000, and the check bears the endorsement for deposit to the account of Marshall Diggs. So he did get the \$5,000.

Now, did he ever get you a contract?

Mr. COOMBS. No, sir.

The CHAIRMAN. Mr. Diggs or Mr. Waugh?

Mr. COOMBS. If I may continue with one more thing.

The CHAIRMAN. Yes; you may.

Mr. COOMBS. Then after everything had settled down and we were getting ready—oh, I suppose it was an hour after that, and we were getting ready to leave Washington to drive to Charleston, Mr. Shuman and myself sat down and decided that, well, we just didn't like the sound of the whole thing and we called Morgantown back and told them to hold up the check, but it had already gone out that evening. Then we left that evening for Charleston, W. Va.

The CHAIRMAN. Now, did Mr. Diggs or Mr. McCormick ever get you a contract?

Mr. COOMBS. No, sir.

Mr. SHUMAN. Senator, approximately a week later, a week or 2 weeks, I don't know the exact time, I returned to Washington, D. C., to Mr. Diggs' office, at which time and place I was to aid in the filling out of certain forms for this project. I recall, to the best of my recollection, I completed the forms there using his secretary to do the typing, and took the forms to the naval base at Patuxent and submitted them or the forms to a major or some officer.

The CHAIRMAN. You did make an application?

Mr. COOMBS. Yes, sir, we did; at that time.

The CHAIRMAN. And that application was prepared by Mr. Diggs in his office?

Mr. COOMBS. Yes.

The CHAIRMAN. Then what happened?

Mr. COOMBS. As I say, I prepared it. Mr. Diggs wasn't there.

The CHAIRMAN. I see.

Mr. COOMBS. I think he came in right before I took the application over. Then later he informed us that the corporation didn't meet the qualifications because of management personnel for a project.

The CHAIRMAN. In other words, you did not get the contract?

Mr. COOMBS. No, sir.

The CHAIRMAN. Did Mr. Diggs keep your \$5,000?

Mr. COOMBS. He did not keep all of it. I was able to get a portion of it back.

The CHAIRMAN. Did he voluntarily return it to you?

Mr. COOMBS. After several trips to Washington, and on the last trip I got Mr. James Boss, of Boss & Watchel, to accompany me to his office, at which time I again repeated to him the action that we would take to gain back the money. And I believe about that same time or shortly afterward we saw in a West Virginia paper where a Charleston outfit had paid him \$5,000 and had brought a suit against him for the money.

He returned—may I see that file? Because I made a note at the time I was here.

Mr. DINKINS. Mr. Shuman, our records indicate that you paid \$5,000 to Diggs on January 20, 1950, and that you received half of it, \$2,500, back on August 28, 1951.

Does that coincide with your recollection?

Mr. COOMBS. Yes, sir; because I notice here a statement from Mr. Boss, the attorney, in which he billed Baker & Coombs for services, \$100, on the 19th day of July 1951, for accompanying me to Mr. Diggs' office.

The CHAIRMAN. And you did turn the matter over to your local attorney.

Mr. COOMBS. No. I was here with him.

The CHAIRMAN. I see.

Mr. COOMBS. Then he, referring to he, Marshall Diggs, stated that he would pay the money by September 1, 1951, and he stated to me, there is July while I was in his office with Mr. Boss, that is—he returned \$2,500, and he stated that that was his entire fee, and he told me at that time that some attorney in West Virginia got the rest of the money.

The CHAIRMAN. Without objection, we will place in the record at this time a letter dated August 27, 1951, written by Robert S. Tarnay, on the letterhead of Marshall R. Diggs' law office, 1025 Connecticut Avenue, Washington, D. C., a letter to Mr. Coombs, in which Mr. Tarnay in behalf of Mr. Diggs returns to you \$2,500.

(The letter referred to follows:)

LAW OFFICES, MARSHALL R. DIGGS, ROBERT S. TARNAY,  
Washington 6, D. C., August 27, 1951.

Mr. JAMES E. COOMBS,  
Baker & Coombs, Morgantown, W. Va.

DEAR MR. COOMBS: Supplementing our letter of July 18, 1951, there is enclosed herewith check in the amount of \$2,500, representing the amount returnable to you by ourselves as set forth in the above-mentioned letter of July 18.

Looking forward to working with you again on other matters, I am,

Sincerely yours,

ROBERT S. TARNAY.

The CHAIRMAN. What did he do for the \$2,500 he kept?

Mr. COOMBS. He furnished secretarial services for you for a couple or 3 hours.

Mr. SHUMAN. He gave us a very entertaining group of letters in which he gave a travelog of where he had been and why we could not contact him while we were in Washington or on our numerous calls to Washington. We insisted on the \$5,000 and he stated to me that this attorney in West Virginia had gotten \$2,500 and all he had left was \$2,500. I called Mr. Coombs from Washington and said, "Jim, if I were you I believe I would take it."

And Jim says, "We will do whatever you want to," and I took \$2,500 as complete settlement.

The CHAIRMAN. Who was the attorney in West Virginia.

Mr. SHUMAN. I don't know, unless it was Mr. Waugh, because Mr. Waugh is an attorney from Buckhannon, but I don't know that he got them.

The CHAIRMAN. You are an attorney; aren't you?

Mr. SHUMAN. Yes, sir.

Mr. DINKINS. Mr. Shuman, did you and Mr. Coombs testify here in Washington at an executive session on September 9?

Mr. SHUMAN. Yes, sir.

Mr. DINKINS. Of this year.

Mr. Coombs, I call your attention to what appears on our record at page 11049—after we were discussing what Mr. Diggs and Mr. McCormick had done to earn this \$5,000 fee.

Mr. COOMBS. Yes.

Mr. DINKINS. You stated and I quote:

They felt that until they got our money there was no doubt about the project, and as soon as they got our money they were just like an eel. You couldn't pin them down to anything.

Then Mr. Shuman interjected and said:

They went from optimism to evasion.

I asked this question:

Did you have any trouble contacting Diggs or McCormick after that?

Meaning after you paid the money over to him, and your answer was:

I never saw Diggs and McCormick after that date. He was always very evasive and was always out of town.

Mr. COOMBS. Yes, sir; that is correct.

The CHAIRMAN. Did you ever find out why they wanted you at 4 o'clock in the morning?

Mr. COOMBS. Never did, sir.

The CHAIRMAN. Why it was so rushed?

Mr. COOMBS. We always just kind of felt that we were country boys and got took by the city slickers.

The CHAIRMAN. You kind of felt you "got took" at 4 o'clock in the morning?

Mr. COOMBS. Yes, sir.

The CHAIRMAN. I suppose every businessman has to be "took" once. You are no exception.

Mr. COOMBS. We left at 3 o'clock to come over here this morning.

The CHAIRMAN. Well, I hope you don't feel you have been "took" here.

Thank you very much, gentlemen. We appreciate your help and your testimony.

Mr. SHUMAN. Thank you, Senator.

The CHAIRMAN. Thank you very much.

Mr. COOMBS. Thank you.

The CHAIRMAN. We will give you this check back.

Our next witness will be Mr. Richard McCormick.

Mr. McCormick, will you come forward, please? Mr. McCormick, will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the whole truth, so help you God?

### TESTIMONY OF RICHARD McCORMICK, VIENNA, VA.

Mr. McCORMICK. I do.

The CHAIRMAN. Will you be seated?

Give your full name and address to the reporter.

Mr. McCORMICK. Richard McCormick, Vienna, Va.

The CHAIRMAN. I would like to have the record show that Mr. McCormick was subpoenaed to appear before this committee in October, but was unable to appear at that time on account of sickness, and his doctor furnished us with a certificate stating or setting forth his illness. That is the reason that he is back today. He was unable to testify at that time. He was served with a new subpoena on October 18 to appear today.

You may proceed, Mr. Counsel.

Mr. DINKINS. Mr. McCormick, during the latter half of the year 1949 and the early part of 1950 were your business headquarters in Washington then located at the Mayflower Hotel?

Mr. McCORMICK. That is correct.

Mr. DINKINS. Do you know a Mr. Marshall Diggs, attorney in town?

Mr. McCORMICK. I do.

Mr. DINKINS. Who was testified about by the preceding witnesses?

Mr. McCORMICK. Yes, sir.

Mr. DINKINS. Now, did you have a business relationship with Mr. Diggs during 1949 and 1950 under which you were going to bring to him companies interested in Wherry Act projects?

Mr. McCORMICK. That is correct.

The CHAIRMAN. May I ask this. Mr. McCormick, did Mr. Diggs approach you to do this or did you approach Mr. Diggs?

Mr. McCORMICK. Well, frankly, Senator, I can't tell you just the way it worked out.

The CHAIRMAN. How long had you known Mr. Diggs?

Mr. McCORMICK. Well, I met Mr. Diggs just about that time.

The CHAIRMAN. I see. You hadn't previously known him?

Mr. McCORMICK. No; that is correct.

The CHAIRMAN. And you can't remember whether he suggested that you become a bird dog for him in bringing cases or whether you suggested it to him; is that right?

Mr. McCORMICK. To the best of my recollection, this is the way it happened—

The CHAIRMAN. I see.

Mr. McCORMICK. Ernest Bailey of Charleston, W. Va.—

The CHAIRMAN. Ernest Bailey of Charleston, W. Va.?

Mr. McCORMICK. Yes; called me at the Mayflower Hotel and said this Wherry Act was about to be passed or was passed and for me to get the information on it.

The CHAIRMAN. Who was Mr. Bailey? Was he a lawyer or builder?

Mr. McCORMICK. No; he is not a lawyer. He was a civil engineer.

The CHAIRMAN. I see.

Mr. McCORMICK. And also in the coal business.

The CHAIRMAN. Yes.

Mr. McCORMICK. But he had a hand in politics.

The CHAIRMAN. He telephoned you asking you to secure for him whatever information you could on the so-called Wherry Act?

Mr. McCORMICK. That is right.

The CHAIRMAN. All right. Then what happened?

Mr. McCORMICK. Then I got that information by getting those little pamphlets.

The CHAIRMAN. Yes.

Mr. McCORMICK. Of the act and so forth and so on. Then we had a meeting with Ed Bennett—

The CHAIRMAN. Who is Ed Bennett?

Mr. McCORMICK. Well, Ed Bennett is in the building-supply business or was at that time in Buckhannon, W. Va.

The CHAIRMAN. I see.

Mr. McCORMICK. Who knew both of those gentlemen.

The CHAIRMAN. You had a conference with Mr. Bennett?

Mr. McCORMICK. Yes; and that was in Washington.

The CHAIRMAN. I see. Here in Washington?

Mr. McCORMICK. That is right.

So the primary plan was to create some business. In other words, this Wherry Housing Act which would give housing to the Government employees and it was decided, to make sure we got it, to have those bids as low as possible and the rentals on that same basis.

So, then, it was decided that we needed an attorney.

The CHAIRMAN. That you needed an attorney?

Mr. McCORMICK. We did.

The CHAIRMAN. You and Mr—

Mr. McCORMICK. The three of us.

The CHAIRMAN. Yes.

That is Mr. Bennett, yourself and Mr. Waugh?

Mr. McCORMICK. That is right.

The CHAIRMAN. Mr. Waugh, the third one?

Mr. McCORMICK. No, Mr. Waugh was not in that.

The CHAIRMAN. Who were the three?

Mr. McCORMICK. It was Ernest Bailey.

The CHAIRMAN. I see.

Mr. McCORMICK. And Ed Bennett and myself.

The CHAIRMAN. And yourself.

Mr. McCORMICK. Yes, sir.

The CHAIRMAN. And that you needed an attorney to assist you?

Mr. McCORMICK. That is right.

The CHAIRMAN. How did you come to go to Mr. Diggs?

Mr. McCORMICK. Well, as I recall, it was Mr. Bailey's suggestion, because I didn't know any attorneys here, a suggestion that Marshall Diggs be brought in. So I met Marshall Diggs. Ed Bennett suggested we find out something about him. Some inquiries were made, and so on and apparently it checked up all right.

Then he said that he knew more about the Wherry Act.

The CHAIRMAN. You mean Diggs told you that?

Mr. McCORMICK. Diggs said this, at this meeting.

The CHAIRMAN. Yes.

Mr. McCORMICK. That he knew more about this Wherry Act I believe than anybody.

The CHAIRMAN. And did he also tell you he knew Mr. Powell?

Mr. McCORMICK. No, no. I never have heard Powell's name, ever.

The CHAIRMAN. That came later?

Mr. McCORMICK. That never came until I read it in the papers here.

The CHAIRMAN. I see.

Mr. McCORMICK. I never heard of Mr. Powell's name.

The CHAIRMAN. Powell did not enter into this?

Mr. McCORMICK. That is correct.

He told us that prior to this Wherry bill going through, that there was some discussion in the Senate or House——

The CHAIRMAN. Senate or what?

Mr. McCORMICK. In the Senate or House as to a reference about \$600 million of the military appropriation that apparently they couldn't get through, and that he was on the golf course. I just don't recall whether it was Burning Tree or what one it was, but it seems it was Burning Tree, as I recall. I ran into Louis Johnson——

The CHAIRMAN. You ran into Louis Johnson?

Mr. McCORMICK. No; I was not there.

The CHAIRMAN. You mean——

Mr. McCORMICK. That is what Diggs tells us.

The CHAIRMAN. Diggs claimed he ran into Louis Johnson on some golf course?

Mr. McCORMICK. That is right.

The CHAIRMAN. Mr. Johnson being from West Virginia?

Mr. McCORMICK. That is correct.

The CHAIRMAN. What is this year?

Mr. McCORMICK. This is 1949.

The CHAIRMAN. 1949. He was at the time Secretary of War.

Mr. McCORMICK. No, Secretary of Defense.

The CHAIRMAN. I mean Secretary of Defense.

Mr. McCORMICK. That is right.

The CHAIRMAN. He was Secretary of Defense at the time.

Mr. McCORMICK. That is correct.

He made the suggestion——this is the story that he told us.

The CHAIRMAN. That is Diggs told you?

Mr. McCORMICK. Told us, that is correct.

The CHAIRMAN. He made the suggestion?

Mr. McCORMICK. To Louis Johnson.

The CHAIRMAN. Yes.

Mr. McCORMICK. On the golf course, that since there was so much trouble with this appropriation of some \$600 million for housing for military, that why not let private enterprise build it.

The CHAIRMAN. If I remember correctly, that was Senator Wherry's idea, but maybe it was Johnson's, too, and Diggs'. I don't know.

Mr. McCORMICK. I don't know. I don't know anything about that because I know nothing about Washington politics in any way, shape, or form.

The CHAIRMAN. I mean the bill was introduced by former Senator Wherry?

Mr. McCORMICK. That is right.

The CHAIRMAN. Diggs told you that he had suggested to Johnson it be handled in that way.

Mr. McCORMICK. That is right.

The CHAIRMAN. I see.

Mr. McCORMICK. So he said that he had—there was great assistance in that thing.

The CHAIRMAN. Was Diggs a close personal friend of Johnson's?

Mr. McCORMICK. That I don't know. He said he ran into him—

The CHAIRMAN. Did Diggs tell you this story about Johnson on your first visit to Diggs?

Mr. McCORMICK. That is correct.

The CHAIRMAN. On your first visit?

Mr. McCORMICK. That is right.

The CHAIRMAN. He told you of his conversation with Johnson on a certain——

Mr. McCORMICK. That is right.

The CHAIRMAN. Golf course. And that impressed you, did it?

Mr. McCORMICK. Well, naturally.

I mean, here is a man that has been around Washington, so we found out, practically all his adult life, and so forth, in business.

The CHAIRMAN. While playing golf he saw Johnson, the Secretary of Defense, on the golf course, and talked to him about the Wherry Act?

Mr. McCORMICK. I know that in years gone by in private business why contacts have been made that way and it didn't concern me. I mean, in other words, it was nothing strange to me.

The CHAIRMAN. In other words, you made a deal with Diggs?

Mr. McCORMICK. That is correct.

The CHAIRMAN. Was that a personal deal between you and Diggs, or did these two other gentlemen enter into it?

Mr. McCORMICK. No. They were in with the same. In other words, the three of us were partners. Then we brought——

The CHAIRMAN. I see. The three of you were partners. That is yourself, Bennett, and——

Mr. McCORMICK. That is correct.

The CHAIRMAN. Who was the third one?

Mr. McCORMICK. Myself, Bennett, and Bailey; Ernest Bailey.

The CHAIRMAN. Oh, Ernest Bailey, Bennett, and yourself?

Mr. McCORMICK. That is right.

The CHAIRMAN. Were partners on the one hand.

Mr. McCORMICK. That is right.

The CHAIRMAN. Diggs was the partner on the other.

Mr. McCORMICK. That is right.

The CHAIRMAN. And the agreement was that you three men would bring in customers to Diggs and Diggs would close the deal with them, is that right?

Mr. McCORMICK. The plan was this, that in order—Ed Bennett being in the building supply business.

The CHAIRMAN. Yes.

Mr. McCORMICK. And had some accounts or contacts for national distribution, that is national prices on equipment and so forth.

The CHAIRMAN. Yes.

Mr. McCORMICK. That it made sense to create some business so that we would be assured of that particular part of that business.

The CHAIRMAN. I see.

Mr. McCORMICK. And also making the housing, cheaper housing all the way around.

The CHAIRMAN. What deal did you make with Diggs, you three gentlemen?

Mr. DINKINS. Excuse me, Mr. McCormick. Let me interrupt for a moment.

Mr. McCORMICK. Yes.

Mr. DINKINS. You weren't in partnership with anybody but Diggs when it came to splitting this money; were you?

Mr. McCORMICK. I want to explain that.

Mr. DINKINS. I mean, can't you answer that?

Did you split this money from these fees with anybody but Diggs?

Mr. McCORMICK. I did not; no, because it wasn't on that basis. That money was—

The CHAIRMAN. What deal did you make with Diggs?

Mr. McCORMICK. That we would bring the contractors in, after being qualified.

The CHAIRMAN. Yes.

Mr. McCORMICK. And that they were substantially contractors that had the ability to build and were able to do their own financing and so forth.

The CHAIRMAN. You would bring them into Diggs' office?

Mr. McCORMICK. Yes; that is right.

The CHAIRMAN. And he would proceed to sell them on the idea of paying him, Diggs, a fee; was that right?

Mr. McCORMICK. No; it wasn't done like that.

The CHAIRMAN. Tell us how it was done.

Mr. McCORMICK. Here is exactly, as I recall it, how it was done. This military housing—that is all we were interested in.

The CHAIRMAN. Yes.

Mr. McCORMICK. That they needed this housing, and needed it badly, and that if we built good housing—we would be in competition with a great many other builders and so forth, but if it was done right and the bids were low enough and the rentals were low enough we couldn't miss.

My job was explaining this whole program on a very solid basis, as to how—we didn't know anything about the so-called windfall profits or anything like that. But it was on a very solid basis as to the type of buildings and so on, that no two sites would be the same.

The CHAIRMAN. In other words, you were to bring the people in, the good people as you just described?

Mr. McCORMICK. That is right.

The CHAIRMAN. In to see Mr. Diggs?

Mr. McCORMICK. That is right.

The CHAIRMAN. Then Mr. Diggs was to sell them on the idea of giving him \$5,000?

Mr. McCORMICK. I told these people that Marshall Diggs' retainer was \$5,000.

The CHAIRMAN. I see. Now, how many people did you take or send to Mr. Diggs?

Mr. McCORMICK. I tried to find notes on it. I just don't know exactly, but I told Mr. Dinkins in executive session that Marshall Diggs had the record in his office. He had files, and so forth. Everybody that I brought to his office—there was a retainer agreement signed and it was there.

The CHAIRMAN. You testified, or Mr. Diggs has, that you sent to him 12 different individuals.

Mr. McCORMICK. That would be right, then.

The CHAIRMAN. And 12 of them paid him \$5,000 each, or a total of \$60,000?

Mr. McCORMICK. No; I don't think they all paid \$5,000.

The CHAIRMAN. Counsel tells me that one man—one check was returned. So he did get a total of 11.

Mr. McCORMICK. No; I think it was different from that, Senator, because, as I recall, when we started out on this program there was Ragner Benson, in Chicago, who paid Marshall Diggs \$2,500.

The CHAIRMAN. Only paid him \$2,500?

Mr. McCORMICK. That is right.

The CHAIRMAN. The rest of them paid him \$5,000?

Mr. McCORMICK. As far as I know, they did.

The CHAIRMAN. And the total amount paid him under this arrangement was some \$57,500?

Mr. McCORMICK. That I can't tell you, because I don't have the records.

Mr. DINKINS. Mr. McCormick?

Mr. McCORMICK. Yes?

Mr. DINKINS. Mr. Diggs testified at the public hearing on October 8—and I am quoting from the record, at page 7726—when he was asked by the chairman how many fees he collected from business you brought in to him, and he testified \$60,000, but the \$5,000 was refunded in one case.

Mr. McCORMICK. I wouldn't know about that.

Mr. DINKINS. And he had paid you as a result of the business you brought in to him \$27,500.

Now, would you have any reason to dispute that figure?

Mr. McCORMICK. No; I don't believe so, because I can't actually recall. I rely on the records that—

The CHAIRMAN. Then your answer is, as far as you can remember, that is a true statement?

Mr. McCORMICK. Yes; I believe it could be a true statement. I mean I can't—

The CHAIRMAN. There was no question but what he paid you some money?

Mr. McCORMICK. He paid me some money; yes.

The CHAIRMAN. Did you or Mr. Diggs, or both of you, ever get a contract on a single one?

Mr. McCORMICK. It was not my job to get the contract.

The CHAIRMAN. Did Mr. Diggs ever secure a single contract in any 1 of these 12 cases?

Mr. McCORMICK. Not to my knowledge.

When we took these contractors, or I took these contractors to Marshall Diggs office, it was explained to them that Marshall Diggs had the know-how and did not have any influence and that I had no influence.

The CHAIRMAN. You mean that Marshall Diggs had the influence?

Mr. McCORMICK. No. I had told these contractors that Marshall Diggs did not have influence but he had know-how.

The CHAIRMAN. He didn't have influence but he had know-how?

Mr. McCORMICK. That is correct.

And when I got the contractor to——

The CHAIRMAN. You would have been impressed with the fact that he had played golf with the Secretary of Defense, wouldn't you?

Mr. McCORMICK. I was, surely.

The CHAIRMAN. Yes.

Mr. McCORMICK. Surely. I mean, I had no reason to doubt it at the time and so on. As far as I know, he may have, might have.

Mr. DINKINS. Mr. McCormick, while you were drumming up this business for Mr. Diggs, didn't you on several occasions take trips away from Washington and make at least two trips to California looking for new business?

Mr. McCORMICK. Yes, I did.

The CHAIRMAN. Have we ever placed in the record the names of those 12 accounts?

Mr. DINKINS. Yes, sir.

The CHAIRMAN. They are in the record?

I don't think they have been in the public record.

Mr. McCORMICK. Senator——

The CHAIRMAN. We haven't placed them in the public record. Let me have the names and addresses of the 12 people that paid these so-called \$5,000 fees, each.

Mr. DINKINS. I would have to get you that.

The CHAIRMAN. Are they scattered all over the country, Mr. McCormick?

Mr. McCORMICK. Yes, they are.

The CHAIRMAN. How did you find them?

Mr. McCORMICK. Well, they were brought to me.

The CHAIRMAN. Oh, they were brought to you?

Mr. McCORMICK. Yes.

The CHAIRMAN. By whom?

Mr. McCORMICK. Well, by Ed Bennett. He was the one. And a woman in California by the name of Hanson.

The CHAIRMAN. Did you pay Mr. Bennett and Miss Hanson for bringing them to you?

Mr. McCORMICK. No; I did not.

Senator, may I ask a question.

The CHAIRMAN. Yes, you may.

Mr. McCORMICK. On this Baker and Coombs version of this thing, I mean I would like to testify as to what I believe occurred at the time and how they got out of bed at 3 o'clock in the morning, or reached——

The CHAIRMAN. Yes; that would be interesting.

Mr. McCORMICK. I think——

The CHAIRMAN. Did you call them?

Mr. McCORMICK. If you will let me explain it?

The CHAIRMAN. Yes; you tell it in your own way.

Mr. McCORMICK. Then it might help out here, I don't know.

Mr. Waugh and Mr. Bennett came to Washington.

The CHAIRMAN. They are from West Virginia.

Mr. McCORMICK. That is correct. And Mr. Waugh said that he had some contractors that he wanted to get the subcontracts from if we could get the project. And he had one in particular in mind and they wanted one in Maryland, at Patuxent.

So I went to Marshall Diggs' office and discussed it with Mr. Marshall Diggs and he said, "Well, if you have a contractor that wants Patuxent, they better get busy because there is some activity on that base." So then I came back and I told Mr. Waugh that.

Now all these bases incidentally that these contractors were for, that were open, was furnished to me by Marshall Diggs' office, a base here and a base there that was open, and as these bases would come into being you might say for housing.

So anyway, discussing this with Waugh and Bennett, Waugh said, "Well, look, the time is getting short, people filing on that base. I better get ahold of my people." I said, "Well, there is a phone, go call them, and ask them if they are going to be interested."

So he said, "Well, you get the number for me." So I got the number. He gave me the number. Then Waugh got on the telephone and he is the one that got them in there that quick.

The CHAIRMAN. Four o'clock in the morning?

Mr. McCORMICK. That is right.

The CHAIRMAN. Now, Mr. Diggs testified that he paid you \$27,500 as a fee.

Mr. McCORMICK. That is right. I say that is right. I——

The CHAIRMAN. You testified in executive session that it was a loan.

Mr. McCORMICK. That is correct.

The CHAIRMAN. Now, who is telling the truth?

Mr. McCORMICK. I tell you. Here is the way that happened. I was spending my own money. I was under a lot of expense. So I got my two people together——

The CHAIRMAN. Bennett and——

Mr. McCORMICK. Bennett and Bailey. So I said, "What about Marshall Diggs advancing the money for this stuff. Then a project goes through and we set up a corporation, out of what we have coming we will pay Marshall Diggs back."

So I spoke to Marshall Diggs about it and he did not like the idea, and so on. Then I said, "There is no use in going on with this picture."

Finally——

The CHAIRMAN. Well, you got \$27,500. Also you and Diggs were to become stockholders in each of these projects, were you not?

Mr. McCORMICK. That is——and the money that we were to get, that is the three of us were to get, was to be set up in a company to run like shopping centers.

The CHAIRMAN. In other words, Diggs not only charged them \$5,000, and you were a partner of his, at least you got half of it——

Mr. McCORMICK. I was not a partner of his.

The CHAIRMAN. You got half of it later?

Mr. McCORMICK. Yes.

The CHAIRMAN. Likewise if you had been successful in any of these projects you were going to have part of the capital stock, thereby participating in the windfalls if any, or participating in the profits of the corporation.

Mr. McCORMICK. There couldn't be any windfalls. It was never thought of, because our object was to produce those houses as cheap as possible.

The CHAIRMAN. Yes; I know.

Mr. McCORMICK. So you cannot do and make any—that wasn't the idea. On the Wherry Act, it was the long pull that would bring the thing out. We—

The CHAIRMAN. My point is you and Diggs were to share in the profits if there was any profits.

Mr. McCORMICK. That is right.

The CHAIRMAN. Either from operation or any other source?

Mr. McCORMICK. Operation. We wanted to set up a management company.

The CHAIRMAN. You were going to set up a management company and you and he were going to become the manager of each of the projects?

Mr. McCORMICK. No; Marshall Diggs was not a party to this particular management company. The stock that was to come to us—it was to be a management company, something on the basis that you would have mass feeding to various points.

The CHAIRMAN. You received \$27,500, and you testified in executive session it was a loan. Mr. Diggs testified that it was your half of the fees. You did not in filing your income-tax returns include it as an income, did you?

Mr. McCORMICK. I did not include it as an income.

The CHAIRMAN. Did not include it as an income?

Mr. McCORMICK. No, sir.

The CHAIRMAN. How did you treat it?

Mr. McCORMICK. As expenses. That money was on the basis of a loan and it was to be paid back if we got a housing project.

The CHAIRMAN. Did you ever give Mr. Diggs a note?

Mr. McCORMICK. Yes; I gave him—later on I had an argument with him about these things because I was wondering why these projects were not going through.

The CHAIRMAN. Somebody is in a little trouble here, because Diggs took it off his income.

Mr. McCORMICK. I don't care what Mr. Diggs does.

The CHAIRMAN. He took it off his income, he didn't pay taxes on it and you didn't pay taxes on it. So—

Mr. McCORMICK. I don't care what Mr. Diggs has done.

The CHAIRMAN. I see.

Mr. DINKINS. Mr. McCormick, you don't have any outstanding notes with Mr. Diggs now, do you?

Mr. McCORMICK. No; I do not.

Mr. DINKINS. And isn't the fact that in all these cases you had an exact 50-50 split with Mr. Diggs?

Mr. McCORMICK. That is right.

Mr. DINKINS. And isn't it also a fact that during this 1949-50 period that your sole source of income was from these cases?

Mr. McCORMICK. I do not call it income because I spent money besides that on this.

Mr. DINKINS. I mean call it whatever you may.

Mr. McCORMICK. Yes, sir.

Mr. DINKINS. You were not receiving money from any other source during that period?

Mr. McCORMICK. No; I was not.

Mr. DINKINS. Except on these cases you were bringing in to Mr. Diggs?

Mr. McCORMICK. That is correct.

Mr. DINKINS. Did you ever know of any cases where you brought some prospects in to see Mr. Diggs and they were prepared to pay the \$5,000 fee, but he refused to accept their case because he didn't think they were properly qualified?

Mr. McCORMICK. No; he did not. And I may explain that in this manner. I don't know—I was not the only one that was bringing cases in, I understand. Now I have no proof of that.

The CHAIRMAN. You think he had other "bird dogs" besides you?

Mr. McCORMICK. Well, Senator—

The CHAIRMAN. I don't mean that. I mean did you think he had other—I call them "bird dogs."

Mr. McCORMICK. I have no direct information to that. But from observation it looked like it.

The CHAIRMAN. In other words, you think other people were bringing in cases like you were in which he charged them \$5,000?

Mr. McCORMICK. I don't know what he charged or if he charged. I just suspicion that.

Mr. DINKINS. Mr. McCormick, when you testified at the executive session here on September 9 on the question of whether or not the money you received from Diggs was a loan or whether it was fee splitting, I asked you, on page 11131, this question:

Are you prepared to state here now under oath that you did not have an understanding with Mr. Diggs that you were to get a certain percentage of all the retainers that you brought in to him. I want you to think your answer over carefully.

And you replied:

I am trying to figure out how the devil to answer that thing.

Now, have you figured out in any clearer language how you can maintain your position, that this was not a fee splitting to you but these were loans?

Mr. McCORMICK. Well, that was the understanding that I had with Marshall Diggs, that they were advances, because I could not carry on this activity unless I had the money. Marshall Diggs did not want to advance the money. Ernest Bailey did not have it. And I had spent practically all that I had.

Mr. DINKINS. Now, you received these moneys in 1950, which was a little over 4 years ago.

Mr. McCORMICK. That is right.

Mr. DINKINS. Has Mr. Diggs ever made any demands upon you for a return of any part of this money?

Mr. McCORMICK. No; he hasn't. Because the money—

The CHAIRMAN. He naturally wouldn't because—he did not take it in in his tax return as income but took it as expense.

Mr. McCORMICK. I understand, and I do not know, that he did not give me a slip. I understand I should have had a slip, if he paid me that money, but I don't remember ever receiving any slip where they sent it to Kansas City. And I always treated it as such, that the money was to come out of the projects. That was the first thing that was to come, was out of the projects to pay him back that money.

The CHAIRMAN. How long a period of time was it in receiving this \$27,500?

Mr. McCORMICK. Well, it was partly——

The CHAIRMAN. Was it 6 months or a year?

Mr. McCORMICK. No. It was part in 1949, 1950, and I am not sure whether the first part of 1951.

The CHAIRMAN. We don't seem to have the addresses of these contractors that Mr. Diggs took for \$5,000 each. Does anybody have the addresses? This executive session doesn't show their addresses.

There is Home Designers and Builders, Summers Construction Co., Baker & Coombs, S. V. Hunseker, Roy L. Morgan & Co., Kenhill Construction. Can you help us and give us the addresses? I will ask you. Home Designers and Builders, what was their address?

Mr. McCORMICK. That I do not know.

The CHAIRMAN. Is that one on which he paid you a fee?

Mr. McCORMICK. I don't know. I don't remember.

The CHAIRMAN. You have no record?

Mr. McCORMICK. I had a record, but I don't know where it is.

The CHAIRMAN. Do you know the Summers Construction Co.?

Mr. McCORMICK. They are in Beverly Hills, Calif.

The CHAIRMAN. Beverly Hills, Calif.

Baker and Coombs are in Morgantown, W. Va.?

Mr. McCORMICK. Yes, sir.

The CHAIRMAN. S. V. Hunseker?

Mr. McCORMICK. I believe Hunseker is in California, too.

The CHAIRMAN. Beverly Hills?

Mr. McCORMICK. That I don't know. Long Beach.

The CHAIRMAN. Roy L. Morgan & Co.?

Mr. McCORMICK. He is in Tulsa, Okla.

The CHAIRMAN. Tulsa, Okla. Kenhill Construction Co.?

Mr. McCORMICK. They are in Charleston, W. Va.

The CHAIRMAN. M. A. Summers?

Mr. McCORMICK. Didn't you just mention Summers?

The CHAIRMAN. Summers Construction Co., and then there is M. A. Summers.

Mr. McCORMICK. I think that is the same party.

The CHAIRMAN. Williams & Lowe?

Mr. McCORMICK. They were California, Long Beach, Calif.

The CHAIRMAN. Steiner & Horne?

Mr. McCORMICK. I don't remember their address.

The CHAIRMAN. Fulton Boer?

These that you cannot remember: do you suppose they are cases——

Mr. McCORMICK. I believe they are in California, but I don't remember.

The CHAIRMAN. Fulton Boer?

Mr. McCORMICK. I think that they are in California. I cannot swear to it.

The CHAIRMAN. Then here is one, Eden.

Mr. McCORMICK. Eden? They are down in the South here someplace.

The CHAIRMAN. Down South?

Mr. McCORMICK. I believe.

The CHAIRMAN. And there is Engstrom & Wynn. Where are they located?

Mr. McCORMICK. Wheeling, W. Va.

The CHAIRMAN. They are at Wheeling, W. Va.

Then here are more over here. Kenneth Fulgham. Where are they?

Mr. McCORMICK. That I don't remember.

The CHAIRMAN. I am informed by counsel, our lawyer here, that I have before me 12 cases here where you didn't participate, where Mr. Diggs got the money himself, I presume, and handled them on his own.

Mr. McCORMICK. I suspicioned that, but I had no proof of it.

The CHAIRMAN. Would you call Mr. Diggs an influence peddler?

Mr. McCORMICK. I figured he had know-how.

The CHAIRMAN. What do you mean by know-how?

Mr. McCORMICK. Well, he knew how to fill out these forms.

The CHAIRMAN. He couldn't have known too much because he didn't get a single contract for a single person.

Mr. McCORMICK. I know now, much to my sorrow, because this thing practically ruined me, this whole business.

The CHAIRMAN. He couldn't have known too much because he couldn't get a single contract.

Mr. McCORMICK. I don't think he knew anything.

The CHAIRMAN. Do you think he made any efforts to get these contracts?

Mr. McCORMICK. He made a lot of effort to me in conversations.

The CHAIRMAN. Any further questions?

Mr. SELLS. Yes.

The CHAIRMAN. Mr. Sells.

Mr. SELLS. Mr. McCormick, you heard the previous witnesses who testified that they had the impression that you had called yourself or others had referred to you as Representative McCormick?

Mr. McCORMICK. I heard that today; yes.

Mr. SELLS. Can you clear that up for us?

Mr. McCORMICK. Well, I have never ever represented myself as being anything except exactly what I was.

Mr. SELLS. Have you ever been a member of this State or Federal legislative body?

Mr. McCORMICK. No; nothing but business all my life.

Mr. SELLS. Why would somebody refer to you as Representative McCormick?

Mr. McCORMICK. I don't think anybody did. I think it is probably a misunderstanding.

Mr. SELLS. How about Senator Bennett?

Mr. McCORMICK. Well, I can tell you perhaps from Waugh how that came about.

Ed Bennett had a son that was going to Annapolis and he went down there to see him and stayed at Carver Hall. A Maryland senator by the name of Bennett had that room and there was quite a ruckus about it because the State senator's wife had called and a woman answered the phone, which happened to be Mr. Bennett's, of West Virginia, wife, and that was quite a joke around West Virginia.

The CHAIRMAN. It was quite a joke in West Virginia.

Mr. McCORMICK. It was sort of a nickname among private people. Now, I heard that story and it was told to Waugh that day that Waugh came in because I did not know Waugh.

Mr. SELLS. Are you sure no one ever called you Representative McCormick?

Mr. McCORMICK. Not to my knowledge they haven't. If they have, why, they were straightened out pretty rapidly.

Mr. SELLS. These titles like senator and representative weren't part of the trappings through which you fellows took these country boys?

Mr. McCORMICK. I don't think these boys were country boys. They were solid businessmen. In the first place, the things that I did was in the belief that I was doing not only a service but an opportunity to create business and to make legitimate money.

Mr. SELLS. Mr. McCormick, you have insisted several times that this arrangement on this portion of the fees that Mr. Diggs received was a loan. I think you have used the words "That was my understanding."

Mr. McCORMICK. That is true.

Mr. SELLS. Or "That is my belief" and so forth.

Mr. McCORMICK. Yes.

Mr. SELLS. Or "I treated it that way."

Mr. McCORMICK. Yes.

Mr. SELLS. Now as the chairman already pointed out, public testimony under oath before this committee by Mr. Diggs himself is to the effect that that was not a loan. Do you have any evidence of any kind to establish what the true state and character of that money was, whether it was a loan or whether it was in fact what it appears to be, your cut of a fee split?

Mr. McCORMICK. Well, the fact is that the money that I spent in traveling, and so forth, would bear that out.

Mr. SELLS. Did you ever keep any detailed itemized record of the money you spent in travel?

Mr. McCORMICK. My hotel bills and my train and plane fares.

Mr. SELLS. Do you have those records?

Mr. McCORMICK. I have them in the accountant's.

Mr. SELLS. But you stated you never reported any of that money on income-tax returns nor ever reported any of those expense items on an income-tax return; is that correct?

Mr. McCORMICK. That is correct.

Mr. SELLS. When is the last time you filed a tax return?

Mr. McCORMICK. 1949, I believe it was, because I haven't made any money since, either.

Mr. SELLS. But you have been living off of something; haven't you?

Mr. McCORMICK. I have been living off of borrowed money.

Mr. SELLS. Off of borrowed money completely.

Mr. McCORMICK. That is correct.

Mr. SELLS. And that is what pays your rent and pays for your food and everything else? Is that correct?

Mr. McCORMICK. That is correct.

Mr. SELLS. But you haven't filed an income-tax return since 1949?

Mr. McCORMICK. That is right.

Mr. SELLS. Who else have you borrowed money from besides Mr. Diggs?

Mr. McCORMICK. Well, personal friends and—that is it.

Mr. SELLS. That is it. How much do your living expenses run per year, Mr. McCormick?

Mr. McCORMICK. I haven't any idea, because I am involved in a contract that I have been working to finance for quite some time.

The CHAIRMAN. Involved in what?

Mr. McCORMICK. In the contract.

The CHAIRMAN. Involved in—

Mr. McCORMICK. A contract that I have been trying to get financed.

Mr. SELLS. And you tell us you have been living on borrowed money since 1949; is that right?

Mr. McCORMICK. That is correct—no; not since—well, yes; that would be right.

The CHAIRMAN. Excuse me. On page 7726 Mr. Diggs testified on Friday, October 8. I want to get it in the record again. In answer to my question:

The CHAIRMAN. So \$60,000 was collected for services and no commitments were issued.

Mr. DIGGS. On none of his cases.

Which, of course, proves the statement you made a moment ago, that he had other cases. Which leads me to wonder how many more bird dogs he had. I quote further:

The CHAIRMAN. And you paid him \$27,500—  
meaning you.

That is right, sir—

Mr. Diggs said.

The CHAIRMAN. It was not a loan?

Mr. DIGGS. It was not a loan.

The CHAIRMAN. It was his fees for bringing these people to you?

Mr. DIGGS. Yes.

Then:

Mr. SIMON. Do you know of any basis for his saying—  
meaning you—

that the \$27,500 was a loan other than the fact he had not included it in the tax return?

Mr. DIGGS. I do not know, sir.

You have no record of any kind other than your own word that it was—

Mr. McCORMICK. Well, that was the understanding.

The CHAIRMAN. It was not a fee?

Mr. McCORMICK. That was the understanding we had, and my word is every bit as good as his and maybe a little bit better; I don't know.

The CHAIRMAN. Well, somebody is wrong.

Mr. McCORMICK. Yes; apparently.

The CHAIRMAN. That is a pretty serious matter.

Mr. McCORMICK. Well, I am willing to face anything that is before me.

Mr. SELLS. Mr. McCormick, did you file a tax return in 1949?

Mr. McCORMICK. Yes; I did.

Mr. SELLS. Where?

Mr. McCORMICK. In Philadelphia.

Mr. SELLS. Is that where you were living at that time?

Mr. McCORMICK. That was my official address.

The CHAIRMAN. Well, we will turn over all this testimony, of course, to the Attorney General for whatever action he might care to make. Because we have conflicting testimony now between you and Mr. Diggs.

One of you is wrong.

I mean one of you has perjured himself. I don't know who it is.

Mr. McCORMICK. Well——

The CHAIRMAN. It isn't our business to decide who does and does not violate the law. All we can do is bring the facts to the attention of the Attorney General. We will turn over to the Attorney General these records.

Any other questions?

Thank you very much, Mr. McCormick, unless you have something to say?

Mr. McCORMICK. No.

The CHAIRMAN. Thank you very much, Mr. McCormick.

Now is there any information we ought to put into the record? Anybody have anything?

I have been handed a file of correspondence, newspaper articles, and so forth, in regard to the Colwell Homes project in Birmingham, Mich., on which Mr. John Hobby testified at our hearings in Detroit. (See p. 2912.)

This is in the nature of a reply to Mr. Hobby's testimony.

We will insert the file in the record.

(The material referred to follows:)

COLWELL HOMES, INC.,

*Birmingham, Mich., October 6, 1954.*

Re FHA Case No. 826-04898, lot 32, Hoeft Road, Commerce Township, Oakland, County, Mich. Mortgagor, John M. Hobby.

FEDERAL HOUSING ADMINISTRATION,  
*Detroit, Mich.*

(Attention: Mr. H. M. Steffy, Assistant Director.)

GENTLEMEN: This is to advise that the items found to be faulty by your inspector on the above-captioned home have been repaired.

Yours very truly,

DLORAH BUILDING Co.,

HAROLD D. COLWELL,

*President.*

COLWELL HOMES, INC.,

*Birmingham, Mich., October 7, 1954.*

Re John Hobby, 2148 Hoeft Road, Commerce Township, Oakland County, Mich.  
FEDERAL HOUSING ADMINISTRATION,

*Detroit 26, Mich.*

(Attention: Mr. Wendell Edwards, Director.)

GENTLEMEN: There are certain facts in connection with the Capehart incident that we believe should be given you.

1. Mr. Hobby purchased a house in an "as is" condition, as the attached letter will demonstrate.

2. Service was given by this company to Mr. Hobby on many occasions. It began with replacing a bathtub shortly after he had occupied the house, despite the fact that we were confident that the bathtub was not defective at the time he took possession. Our service order of September 2 indicates that the house received attention as late as September 9, at which time Mr. Hobby was to mail in any other complaints. This office never received notice of any further complaints. The attached service slips were the result of a routine check by our Mr. Fournier, who made an inspection of every house to which he could gain access.

3. On several occasions, before witnesses, this company has agreed to repurchase this house, as obviously the owner does not understand his obligation to the community. There has been no attempt to improve the property, inside or outside. The yard is in an unsightly state, much to the disgust of the neighbors.

We regret the occurrence of this unpleasant incident, but we feel that we have fulfilled our obligation to our buyers, and feel satisfied that we are delivering to our customers a sound value product for their dollar.

These 900 square foot four-bedroom homes sold for \$6,550, including a sixty-foot lot and all costs and prepaid items, \$850 down and \$40 per month. The homes were complete and ready for occupancy, the owners to provide floor tile and interior decorating. The outside was factory stained and the owners were to provide the additional finish coat with material furnished with the home.

Yours very truly,

DLORAH BUILDING Co.,  
HAROLD D. COLWELL,  
*President.*

---

FORM CH-11

Unit 32 HOEFT

SUBDIVISION

HOBBY

RECIPIENT

9-2-56

DATE

WIRE MAIL CASE PAINTS

REPAIR (HAS STAIN)

TOTAL AMOUNT

| QTY | QTY | WORK                  | AMOUNT |
|-----|-----|-----------------------|--------|
| 1   |     | THRESHOLD PLATE (KIT) | 1.00   |
| 2   |     | WOODEN RICH-TONE WR   | 2.00   |
| 3   |     | CALKING               | 3.00   |
| 4   |     | JOINT OR TANK ODR     | 4.00   |



BIRMINGHAM, MICH., June 12, 1954.

Re lot 32, Pontiac Trail Acres subdivision, Commerce Township

DLORAH BUILDING Co.,  
Birmingham, Mich.

GENTLEMEN: We have checked our property at the above address and have found it complete as represented on our original purchase. We acknowledge that house was sold in an unfinished condition and we accept same in its "as is" condition. We are very satisfied with this construction and acknowledge that builder has supplied the following property improvements, which additions were included at no extra cost to us:

1. Deep-well system, in place of shallow well.
2. Deep-well pump, in place of shallow-well pump.
3. Stepping stones at front of property.
4. Forty-two gallon well storage tank.
5. Side-wall heat register.

JOHN M. HOBBY.  
JUNE E. HOBBY.

Also received: Title insurance policy No. F-16268, fire insurance policy No. 62-22-70, warranty deed, liber 3136, page 133.

COLWELL HOMES, INC.,  
Birmingham, Mich., October 6, 1954.

Re FHA case No. 826-04775, lot 21, Hoeft Road, Commerce Township, Oakland County, Mich.; mortgager, Theodore Gruits

FEDERAL HOUSING ADMINISTRATION,  
Detroit 26, Mich.

(Attention Mr. H. M. Steffy, assistant director.)

GENTLEMEN: This is to advise that the items found to be faulty by your inspector on the above-captioned home have been repaired.

Yours very truly,

DLORAH BUILDING Co.,  
HAROLD D. COLWELL, *President.*COLWELL HOMES, INC.,  
Birmingham, Mich., October 6, 1954.

Re FHA Case No. 826-04660, lot 46, Hoeft Road, Commerce Township, Oakland County, Mich.; mortgagor, Leon Cachera

FEDERAL HOUSING ADMINISTRATION,  
Detroit 26, Mich.

(Attention Mr. H. M. Steffy, assistant director.)

GENTLEMEN: This is to advise that the items found to be faulty by your inspector on the above-captioned home have been repaired.

Yours very truly,

DLORAH BUILDING Co.,  
HAROLD D. COLWELL, *President.*COLWELL HOMES, INC.,  
Birmingham, Mich., October 6, 1954.

Re FHA Case No. 826-04772, lot 47, Hoeft Road, Commerce Township, Oakland County, Mich.; mortgagor, Clyde O. Evans.

(Attention Mr. H. M. Steffy, assistant director.)

FEDERAL HOUSING ADMINISTRATION,  
Detroit 26, Mich.

GENTLEMEN: This is to advise that the items found to be faulty by your inspector on the above-captioned home have been repaired.

Yours very truly,

DLORAH BUILDING Co.,  
HAROLD D. COLWELL, *President.*

COLWELL HOMES, INC.,  
Birmingham, Mich., October 6, 1954.

Re FHA Case No. 826-04123, lot 45, Hoeft Road, Commerce Township, Oakland County, Mich. Mortgagor, Joseph Chabot.

FEDERAL HOUSING ADMINISTRATION,  
Detroit 26, Mich.

(Attention Mr. H. M. Steffy, assistant director.)

GENTLEMEN: This is to advise that the items found to be faulty by your inspector on the above-captioned home have been repaired.

Yours very truly,

DLORAH BUILDING CO.,  
HAROLD D. COLWELL, *President.*

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TWO OF MANY LETTERS RECEIVED FROM HOME OWNERS

2041 NORTH HOEFT DRIVE,  
Walled Lake, Mich., September 29, 1954.

Mr. WENDELL O. EDWARDS,  
FHA Director for Eastern Michigan, Detroit, Mich.

DEAR MR. EDWARDS: We wish to express our personal satisfaction with the National Cadet Home we recently purchased from the Colwell Homes, Inc. We feel we received full value for our money, and no one either cheated us, misrepresented the product, nor made an excess profit on the transaction.

These are low-cost homes, a fact we greatly appreciated, because it enabled us to at last become homeowners after years of being at the mercy of landlords' whims and high rents. The few items we found unsatisfactory have been replaced and otherwise taken care of by the builder at our request. We feel Mr. Colwell and his associates have the welfare of their customers at heart and are willing to stand back of their work on these homes.

Thank you for your attention.

Sincerely yours,

PATRICIA ANN KENDALL  
Mrs. Arthur Kendall.

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2083 NORTH HOEFT DRIVE,  
Walled Lake, Mich., September 28, 1954.

WENDALL O. EDWARDS,  
FHA Directors for Eastern Michigan, Detroit, Mich.

DEAR SIR: This letter is in regards to a housing development by Colwell Homes, of Birmingham, Mich., which was a subject of investigation recently.

Generally speaking, we are completely satisfied with the house we are now occupying at the above address. We feel that we received reasonable value for our money. We have had some complaints, but mostly of a nature found in any new house. Colwell Homes have or are going to, rectify these minor complaints.

There has been some question raised as to the structural soundness of the dwellings. Since most of us are not engineers we have placed our faith in the inspectors of the Federal Housing and local county investigators and inspectors. We are willing to accept their verdict as to the house meeting building codes.

In short, the house is as represented by Colwell Homes, the manufacturer, so we do not feel we have been in any way victimized.

Sincerely,

WALTER J. ASHBROOK.

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OAKLAND COUNTY DEPARTMENT OF HEALTH,  
Pontiac, Mich., September 28, 1954.

Mr. WENDELL O. EDWARDS,  
Federal Housing Administration,  
Detroit, Mich.

DEAR SIR: I was very much surprised to read the article published in the Pontiac Daily Press on Saturday, September 25, relating to testimony given the Capehart committee by John Hobby, of 2148 Hoeft Road, Walled Lake.

My surprise was due to the fact that we have not received a single complaint in this subdivision relating to septic tanks or sewage.

During the early beginning of the Federal Housing Administration operations in Michigan an agreement was made between them and the Michigan Department of Health providing that the State or local health departments would inspect all septic tank sewage-disposal systems if the State's recommendations were incorporated into Federal Housing Administration building standards for Michigan. These recommendations were made a part of Federal Housing Administration building standards and inspections are made of each installation by the State or local health department.

The Pontiac Trail Acres Subdivision, in which Mr. Hobby lives, was approved by this department as being suitable for septic-tank sewage-disposal systems.

Each individual septic tank system was inspected by this department and each one was found to comply with Federal Housing Administration standards before it was covered over.

I visited the subdivision yesterday with representatives of the Federal Housing Administration and the builders. I observed the yards of each of the 24 homes in the subdivision and found no evidence of sewage on the ground nor did I find a single system which was not working properly.

I personally interviewed Mr. Hobby as well as many other homeowners. Mr. Hobby admitted that the septic-tank system at his home worked satisfactorily and that his complaint was that the vent pipe on the roof emitted objectionable odors. The odor of sewage gas from the vent was noticeable at the time of our visit; however odors were not noticeable at any of the other homes in the area. Two of the other homeowners stated that on occasions, when in their yards, they observed strong odors coming from the vents on their homes.

The purpose of a vent on plumbing fixtures and sewers, whether served by a sewerage system or septic-tank system, is to disperse such odors and gases to the atmosphere outside of the building. It may be that the amount of odors being emitted from the complainants' homes is caused by their discharging yeast into the septic-tank systems. Experiments have proven that the use of a so-called starter such as yeast is not necessary nor recommended in septic-tank systems.

In my nearly 20 years of public health work this is my first experience with this type of complaint.

It is my opinion that because of the low altitude and small pitch of these roofs that in certain locations as relating to prevailing winds and under certain atmospheric conditions, odors might be noticeable at the ground level. I am sorry that we are unable to offer more specific cause or recommendations at this time. This matter will be discussed further with architects and engineers.

Very truly yours,

RUSSELL H. COLTSON,  
*Director, Sanitation Division.*

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[Pontiac, Mich., Press, September 29, 1954]

CHECKS SEWAGE SYSTEMS: SANITATION CHIEF ANSWERS WALLED LAKE  
MAN'S CHARGE

Complaints made last Friday by John Hobby, of Walled Lake, to the Senate committee investigating Federal housing operations in Michigan were answered by Russell H. Coltson, director of the Oakland County Sanitation Division.

Hobby told the committee, which since moved its investigation to New York, that a prefabricated home he bought at 2148 Hoeft had several gaps in the wall and a defective septic tank.

In a letter to Senator Capehart, Republican, of Indiana, chairman of the investigating committee, Coltson stated that he was surprised to read of Hobby's complaint because "we have not received a single complaint in this subdivision relating to septic tanks or sewage."

Coltson explained that because the State's recommendations were incorporated into Federal Housing Administration building standards for Michigan, and inspection of each septic tank sewage disposal system built under FHA is made by the State or local health department.

The subdivision in which Hobby lives, Coltson said, was approved by his department for septic tank installation and each system was inspected and found to comply with FHA standards before it was covered over.

Coltson stated that last Tuesday he "observed the yards of each of the 24 homes in the subdivision and found no evidence of sewage on the ground nor \* \* \* a single system which was not working properly."

According to Coltson, "Hobby admitted that the septic tank system at his home worked satisfactorily and that his complaint was that the vent pipe on the roof emitted objectionable odors."

The sanitation director said odors from the vent pipe were noticeable, but none from other homes in the area. Other residents said they did notice odors from their vents at times, he added.

Coltson stated that the odors might be caused by their discharging yeast into the septic tank system as a starter. He said the problem would be studied further.

Copies of Coltson's letter were also sent to the State department of health and the Colwell Homes, Inc., of Birmingham, who erected the subdivision.

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WEST LAFAYETTE, IND., October 5, 1954.

NATIONAL HOMES, INC.,  
Lafayette, Ind.  
(Attention: Mr. Carl Boester.)

DEAR SIR: I am herewith submitting to you six copies of my report on the sewage disposal facilities for 2134 and 2148 North Hoeft Drive at Walled Lake, Mich.

Yours very truly,

DON E. BLOODGOOD, *Sanitary Engineer.*

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OCTOBER 5, 1954.

INVESTIGATION OF SEWAGE DISPOSAL FACILITIES FOR TWO HOMES AT WALLED LAKE, MICH.

(By Don E. Bloodgood, sanitary engineer)

Upon arrival in the Detroit area on October 1, I was accompanied to Walled Lake, Mich., by Mr. Carl Boester, Mr. Rodger Stevenson, and Mr. Barley. I was asked if I would determine whether there was anything wrong with the septic tank and absorption field of the sewage-disposal system at 2148 North Hoeft Drive, a National Homes, Inc., house of the Cadet type.

I was informed by Mr. Stevenson that the complaint registered by Mr. Jack Hobby, the resident of 2148 North Hoeft Drive, was that there were bad odors coming from the septic tank.

A ladder was obtained and I climbed to the top of the house and determined that there was a disagreeable odor coming from the vent from the plumbing. The odor can best be described as being sour. It was not the characteristic "sweetish" odor of fresh sewage or the "tarry" odor that is present when sewage solids are undergoing decomposition in a septic tank that is operating satisfactorily.

Inquiry was made of the woman of the house and we were told that there was no garbage being ground and discharged to the septic tank. The question regarding the ground garbage was asked because the odor was much like that coming from garbage.

It then seemed necessary to find out about the structure and operating condition of the septic tank. The tank was located and uncovered by Mr. Norman Chattam and his helper who were hired to be on hand all day to render any service needed. When the entrance end of the septic tank was opened the same "sour" odor, only much stronger, was very noticeable. The cover on the discharge end of the tank was then opened so that inspection of the overflow pipe and tank contents could be made.

Figure 1 shows the septic tank being uncovered at 2134 North Hoeft Drive. Figure 2 shows the entrance end of the septic tank. The location of the cast-iron sewer is shown and it was believed to be satisfactory as to position and other respects. Figure 3 shows the discharge end of the septic tank. The vitrified clay elbow with small hole for a vent is quite satisfactory for keeping any scum from entering the absorption field.

A decision was then made to check the odor from the plumbing vent pipe on the roof of the home at 2134 North Hoeft Drive, also a Cadet National Home.

There was no objectionable odor coming from the vent pipe on this house. The septic tank at 2134 North Hoeft Drive was then uncovered and opened. There was no sour odor from the opened tank. Mrs. Freeland, the resident of this home, stated that there had been bad odors detected several weeks before but that recently there had been none detected. Figure 4 shows the inlet end of the septic tank at 2134 North Hoeft Drive and a comparison of figures 2 and 4 show that the construction of the two tanks is, for all practical purposes, identical.

Measurements of the tanks show them to be the reported 750 gallons in capacity. This is larger than is required in many States for houses of this size. The capacity of the tank is large enough to take care of ground garbage if the resident of the house wished to use that method of disposal.

Measurement of the hydrogen ion concentration is a way of determining the presence of acids or alkalies that may adversely affect the bacterial action that must go on in septic tanks. Tests were made with a portable kit on the liquids in both of the tanks. The pH of these samples was 7.0, indicating that the liquids were neither acid nor alkaline. Samples taken from both tanks were brought to Lafayette and tested with laboratory equipment on October 2. The pH of these samples was 6.7 for 2134 North Hoeft and 6.8 for 2148 North Hoeft. Though these later samples indicated slight acidity and a slight difference between them there is no significant difference between the field tests and the laboratory tests and the acidity in either is not high enough to be dangerous to the bacterial growths in the tanks.

The distribution box for the liquid from the septic tank at 2148 North Hoeft Drive was opened and it appeared to be functioning as there was no water standing in the tile lines. The concrete cover of the distribution box was cracked and so was replaced with a new one.

The absorption field was located and a section was uncovered. The 4-inch concrete pipe was laid in 4 to 5 inches of what appeared to be well-graded gravel. The joints of the tile were covered with tar paper as is usually prescribed. There was no water in the tile system, indicating that it was functioning properly. Mr. Morris, who placed the absorption field, states that it is 300 feet long and this should be ample because the surrounding earth is very porous sand that apparently will take up water at a very rapid rate.

The septic tanks at 2134 and 2148 Hoeft Drive were stirred with a long-handled spoon shovel. There was a small amount of sewage sludge found at the bottom of the tank that had no bad odor. There were practically no solids on the bottom of the tank that gave off the bad odor.

The observations and tests indicated that the septic tank at 2134 Hoeft Drive was working satisfactorily and that the one at 2148 Hoeft Drive was not. The system at 2134 Hoeft Drive had been used some few weeks longer than the one where the bad odor was detected. It was concluded that there was not sufficient properly decomposed sewage sludge in the foul-smelling tank to keep the decomposition under proper control. Solids that are well decomposed act as a buffer and keep the bacterial decomposition under control.

Difficulties not unlike those experienced with the bad-smelling septic tank are sometimes encountered in municipal sewage-treatment plants when they are first being started. Usually when there is difficulty in starting the digestion it takes quite some time to get straightened out unless it is possible to obtain rather large quantities of well-decomposed sludge to serve as proper seed.

It was concluded that there was nothing fundamentally wrong with the septic tank or absorption field and that if it were to be used for a few more weeks the odors would disappear as the decomposed solids accumulated in the tank. I stated that if some well-decomposed sewage sludge could be obtained at once there undoubtedly would be an almost immediate disappearance of the bad odors.

Mr. Chattam was asked whether he could find a septic tank that needed cleaning that contained a quantity of heavy sludge. Visits were made to three septic tanks but they did not contain what I believed to be satisfactory seeding material. Contact was then made with Mr. Shepard of the State Department of Health at Lansing, Mich., and he was asked where some well-digested sludge could be obtained. He said that probably some could be obtained at the municipal plant at Brighton, Mich., so a trip was made to Brighton to determine whether the sludge there would be satisfactory. It was found to be, from all appearances, quite satisfactory, so about 200 gallons was loaded into Mr. Chattam's truck and hauled 18 or 20 miles, and 50 to 100 gallons placed in the bad-smelling septic tank.

It is believed that this seeding with good sludge will be all that is needed to make the offending septic tank work properly.



FIGURE 1.—Showing location of septic tank with relation to house at 2148 North Hoeft Drive, Walled Lake, Mich.

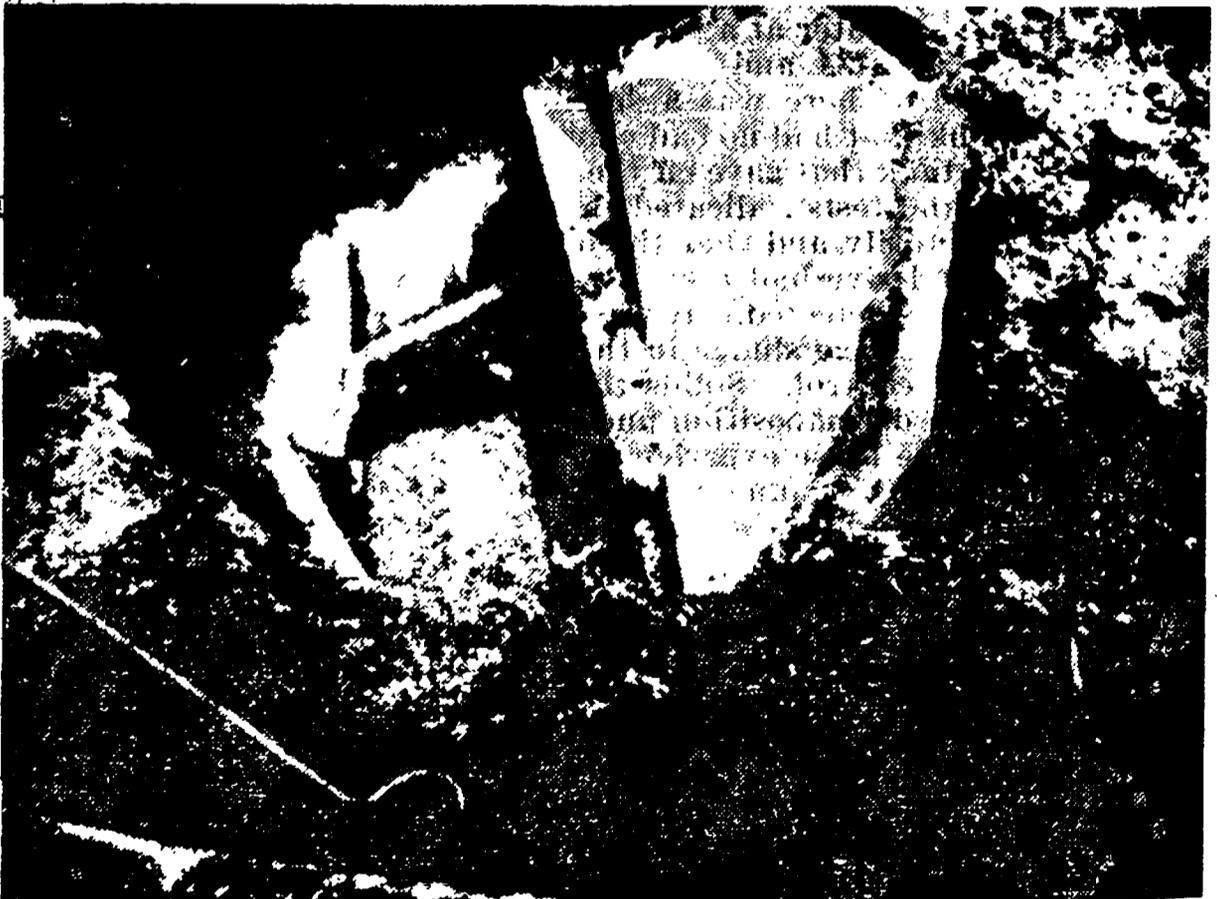


FIGURE 2.—Entrance end of septic tank, 2148 North Hoeft Drive.



FIGURE 3.—Discharge end of septic tank at 2148 North Hoeft Drive.

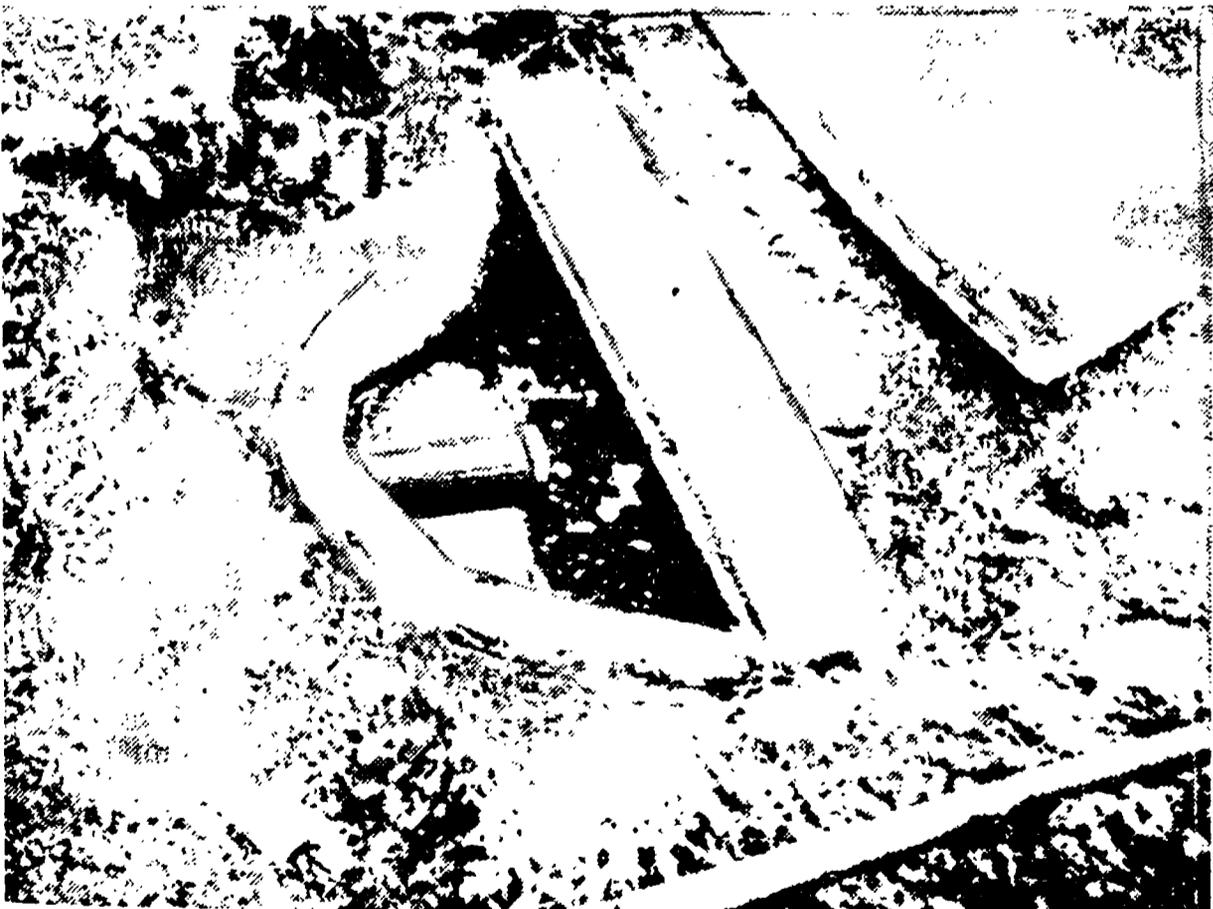


FIGURE 4.—Inlet end of septic tank at 2134 North Hoeft Drive.

[Detroit News, September 26, 1954]

## UNITED STATES AND MICHIGAN TO ACT ON HOME-LOAN FRAUDS

Both the Federal Government and the Michigan Corporation and Securities Commission will take action on home-loan frauds uncovered by the Detroit hearings of the Senate Banking Committee, it was learned Saturday.

About a score of indictments are expected by the Government. The commission has already started license revocation proceedings against one builder and is reviewing records of others named in the quiz.

The committee itself, which wound up its sessions Friday after hearing details of dozens of instances of misuse of Federal Housing Administration guaranteed loans, is now in New York City.

## BUILDER CITED

The builder under citation for a license hearing is Walter F. Helies, operator of the Heyden Building & Supply Co., 1989 West Grand Boulevard. His wife told the committee he was in Canada and could not be reached to be told he was wanted as a witness.

The Federal indictments are expected to involve perjury as well as criminal action for falsifying FHA application forms. The grand jury has been hearing information duplicating that made public by the committee for some time.

Present FHA officials themselves were held blameless in most instances by the committee, but were urged to clear up complaints of a group of homeowners in the Walled Lake area, led by John Hobby, their spokesman.

## MANY SATISFIED

A Detroit News reporter visiting the area found many of Hobby's neighbors do not join in his complaints, however, and believe they "got what we paid for."

There are more than 100 of the homes in the area, prefabricated, 4-room dwellings which sold for about \$6,750.

Before the committee Thursday, Hobby said that the Detroit FHA office had refused to investigate his complaints of shoddy workmanship and unsanitary septic-tank systems.

FHA officials replied that Hobby had been told to make formal complaint on FHA forms given him, that he had not furnished file numbers so that the home deals could be traced through bank and Government records, that the septic problem was that of Oakland County, not the FHA, and that the complaint was only 2 weeks old while FHA is as much as a month behind in such work.

## SOLD UNFINISHED

Neighbors said the homes were sold at the low price because they were not finished. Buyers were supposed to install their own interior doors, tile and asphalt flooring, and their own decorating.

Many complained of odors from the tanks and of what they said was inferior stain used on the outside of the houses, but a number said they understood they would have to work to complete the homes.

The builder, Colwell Homes, Inc., Birmingham, refused to comment. Hobby charged in the hearing that complaints to Colwell brought only the answer that "all you bought was a cheap house, and that is what you got." He said Colwell also accused him of "stirring up trouble and being a rabble rouser."

## COMPLAINTS LISTED

One neighbor said she did not realize that anything was wrong with the home until Hobby pointed out "defects."

Complaints voiced to a Detroit News reporter included: Some weather stripping missing, some insulation board loose, fingermarks on ceiling rafters, marred woodwork, and daylight showing around chimney pipe.

Hobby, 2148 Van Hoeft Drive, a house painter, and adjoining neighbors, Theodore Gruits and Archie Freeland, said their roofing had buckled and that it was "a matter of time" until other faults developed.

FHA officials told the committee that complaints would be handled in the normal course of business.

COLWELL HOMES, INC.,  
Birmingham, Mich., October 7, 1954.

Re John Hobby.

WENDELL EDWARDS,  
Director, Federal Housing Administration,  
Detroit, Mich.

DEAR MR. EDWARDS: Enclosed is an article which appeared in the Pontiac Press on September 30, which we thought you might like to add to your file on this subject.

Yours very truly,

DLORAH BUILDING CO.,  
HAROLD D. COLWELL, *President.*

[Pontiac, Mich., Press, September 30, 1954]

REPLY TO CHARGES MADE AT FHA PROBE: MOST RESIDENTS LIKE HOEFT ROAD HOMES

A majority of residents in a 24-home subdivision east of Walled Lake yesterday voiced few complaints against construction of their prefabricated houses, but a minority of three listed what they termed Hobby's residence had borne out the complaints.

A Pontiac Press survey revealed that most residents felt their Hoeft Road neighbor, John Hobby, did not speak for the group when he appeared last Friday in Detroit before the Senate Banking Committee investigating Federal Housing Administration operations in Michigan.

A spokesman for the firm which built the subdivision, Colwell Homes Inc., of Birmingham, also asserted that most of the residents were "very satisfied."

Hobby told the Senators that his home at 2148 Hoeft had gaps in the walls and a defective septic tank when he moved in.

Senator Capehart (Republican, Indiana), chairman of the committee, criticized Wendell Edwards, FHA director for eastern Michigan, for failure to act on Hobby's complaint.

Then he called for a more effective complaint system when Edwards said he hadn't heard of Hobby's assertions.

Hobby said the smell of sewage on Hoeft caused the people to call it Tobacco Road.

Capehart said an investigation of Hobby's residence had borne out the complaints.

Before his committee left to hold its hearings in New York, Capehart promised to "get to the bottom of this."

Yesterday Hobby pointed out spots where daylight could be seen looking from the inside of his home out.

He said the septic tank emitted a strong odor which often prevented his five children from playing in the yard.

The house painter said, "I've been in construction work 10 years and by the looks of this roof it won't last the winter."

He stated that he had complained about some defects in June, but had gotten no action from the construction company until this month.

Mrs. Joseph Chabot of 1956 Hoeft repeated some of Hobby's complaints saying "they ought to dig up one of those septic tanks and find out what's wrong."

A neighbor across the street, Mrs. Joseph Willis, has written Senator Capehart stating that she is perfectly satisfied with the construction and functioning of her home.

Nine other housewives interviewed said their only complaint was septic-tank odors which seemed to be disappearing and which the Colwell firm and county health department are investigating.

Another lady, however, said she and her husband were driven from their back yard many times by the odor and "we wonder if it isn't harmful to health."

Nearly all agreed with one woman who said, "Our street certainly doesn't resemble any Tobacco Road and we are confident the septic-tank condition will be corrected."

Speaking for the construction company, Harold Colwell said, "the residents bought the homes for \$5,900 and \$6,700 with the understanding that they were buying unfinished homes."

Hobby signed an agreement, Colwell stated, which affirmed that Hobby had inspected the home and accepted it "as is."

People buy the prefabricated homes, Colwell declared, with intention of adding improvements themselves, such as cement driveways, landscaping, bathroom tile, and outside paint.

"If we add many extras they bring cost of the house up and also the down-payment." Then the houses are no longer low cost and many families can't afford them, said Colwell.

He said the Hoefft Road type homes were "approved by about every builders conference in the country" and had seals of approval from two leading magazines.

Two research laboratories are working to determine what causes the septic-tank odor, Colwell stated. "The FHA and the county sanitation department inspected the tanks before they were covered," he added.

Colwell said complaints from residents had been checked and corrected where possible and those who had not painted their homes yet had been offered enough stain to carry through winter.

The CHAIRMAN. The committee, during the months this investigation of the FHA has been in progress, has been fortunate in having a capable, hard-working staff that developed the information that uncovered the many, many irregularities, and worse, that featured the operation of the FHA housing program.

Speaking for myself, and I am sure for the other members of the committee, I desire to commend them.

As these hearings draw to a close, we shall insert in the record a list of all those on the staff who participated in the investigation.

(The list referred to follows:)

SENATE BANKING AND CURRENCY COMMITTEE, FEDERAL HOUSING  
INVESTIGATION STAFF

Counsel :

William Simon  
Richard W. Hogue  
Charles E. Sells  
Clarence M. Dinkins  
Thomas T. Kenney

Staff :

Angelo Addona  
Alfred S. Baer  
John A. Bard  
Morris W. Bush  
Richard J. Carr  
William H. Cook  
Dean Cromer  
Harry K. Cuthbertson, Jr.  
Robert J. Fink  
Byron D. Hedges  
George O. Hill

Staff—Continued

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Edward F. Lyons  
Harold H. McConnell  
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Ray C. Norvell  
Robert P. Patterson, Jr.  
Arthur J. Wilson  
James H. Walter  
Anthony Zabiegalski

Clerical :

Margaret Anderson  
Edna G. Cook  
Carol S. Keyser  
Helen M. Naylor  
Doris Thomas  
Janet D. Wiebler  
Marilyn Willmore

The CHAIRMAN. Then I presume that is the end. We will now recess subject to the call of the chairman. I cannot say when we will hold further meetings, but we will hold further meetings. We will recess to the further call by the chairman.

(Whereupon, at 11:30 a. m., the committee recessed subject to the call of the Chair.)

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